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PROGRAM APPRAISAL DOCUMENT

ON A
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IN THE AMOUNT OF SDR 431.5 MILLION (US\$600 MILLION EQUIVALENT)

TO THE
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

PROGRAM-FOR-RESULTS ENHANCING SHARED PROSPERITY THROUGH
EQUITABLE SERVICES (ESPES)

August 19, 2015

Social Protection and Labor Global Practice
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of May 31, 2015)

Currency Unit = Ethiopian Birr (ETB)
 ETB 20.43 = US\$1
 SDR 0.71916577 = US\$1

FISCAL YEAR

July 8 – July 7
 Ethiopian FY07 – IDA FY16

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BoFED	Bureau of Finance and Economic Development (regional)
COPCU	Channel One Programs Coordinating Unit
CDP	Commune Development Program
CPS	Country Partnership Strategy
CSA	Central Statistical Agency
DA	Development Agent
DAG	Development Assistance Group
DFID	UK Department for International Development
DLI	Disbursement Linked Indicator
DP	Development Partner
DHS	Demographic Health Survey
DQA	Data Quality Assurance
EDQAF	Ethiopia Data Quality Assurance Framework
EIA	Environmental Impact Assessment
EIO	Ethiopian Institute of Ombudsman
EMCP	Expenditure Management and Control Program
EMIS	Education Management Information System
ESAP	Ethiopia Social Accountability Program
ESMC	Environmental and Social Management Capacity
ESMS	Environmental and Social Management System
ESPES	Enhancing Shared Prosperity through Equitable Services
ESSA	Environmental and Social System Assessment
EU	European Union
F&C	Fraud and Corruption
FEACC	Federal Ethics and Anticorruption Commission
FM	Financial Management
FPPPAA	Federal Public Procurement and Property Administration Agency
FTA	Financial Transparency and Accountability
GoE	Government of Ethiopia
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GTP	Growth and Transformation Plan

HEW	Health Extension Worker
HICES	Household Income Consumption and Expenditure Survey
HMIS	Health Management Information System
IBEX	Integrated Budget and Expenditure System
IMF	International Monetary Fund
INT	Integrity Vice Presidency
IGFT	Intergovernmental Fiscal Transfer
JRIS	Joint Review and Implementation Support
MDG	Millennium Development Goal
M&E	Monitoring and Evaluation
MEFF	Macroeconomic and Fiscal Framework
MIS	Management Information System
MoA	Ministry of Agriculture
MoE	Ministry of Education
MoH	Ministry of Health
MoFED	Ministry of Finance and Economic Development
MoU	Memorandum of Understanding
NER	Net Enrollment Rate
NPC	National Planning Commission
OFAG	Office of the Federal Auditor General
OM	Operational Manual
ORAG	Office of the Regional Auditor General
PAP	Program Action Plan
PforR	Program- for-Results
PBS	Promoting Basic Services (formerly, Protection of Basic Services)
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PSCAP	Public Sector Capacity Building and Governance
PSIA	Poverty and Social Impact Assessment
PSNP	Productive Safety Net Project
REACC	Regional Ethics and Anticorruption Commission
SAIP	Social Accountability Implementing Partner
ULGDP	Urban Local Government Development Programme
UNDP	United Nations Development Programme
VfM	Value for Money
WDR	World Development Report
WHO	World Health Organization
WoFED	Woreda Office of Finance and Economic Development

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ETHIOPIA
Program for Results Enhancing Shared Prosperity through Equitable Services

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PAD DATA SHEET

Federal Democratic Republic of Ethiopia

Enhancing Shared Prosperity through Equitable Services Program for Results (P151432)

PROGRAM APPRAISAL DOCUMENT

AFRICA

Social Protection and Labor Global Practice

Basic Information

Date: August 19, 2015

Sectors: Education (Primary education);
Agriculture, fishing, and forestry
(General agriculture);
Health and other social services
(Health);
Health and other social services
(Other social services)

Country Director: Guang Zhe Chen

Themes: Social protection (risk
management and other social
protection);
Public sector governance
(decentralization);
Public sector governance (public
expenditure, financial
management, and procurement);
Social development (rural
services and infrastructure)

Practice Manager: Dena Ringold
Senior Global Practice
Director: Arup Banerji

Program ID: P151432

Team Leader(s): Qaiser Khan
Colin Andrews

Program Implementation Period: 3 years

Start Date: 09/15/15

End Date: 05/01/19

Expected Financing Effectiveness Date: 10/01/15

Expected Financing Closing Date: 06/01/19

Program Financing Data (in US\$ Millions)

Loan Grant Other
 Credit

For Loans/Credits/Others (US\$ Millions):

Total Program Cost:	8,010.50	Total Bank Financing:	600.00
Total Cofinancing:	257.20	Financing Gap:	1,274.62

Financing Source	Amount
Borrower/Recipient	5,878.00
IDA	600.00
Others	257.20
Financing Gap	1,274.62
Total	8,010.50

Borrower: Federal Democratic Republic of Ethiopia

Responsible Agency: Ministry of Finance and Economic Development

Contact:	Ato Getachew Negera	Title: Head, Channel One Programs Coordinating Unit
Telephone No.:	+251 111 569215	Email: getnegera@yahoo.com

Expected Disbursements (in US\$ Millions)

Fiscal Year	2016	2017	2018
Annual	177.5	200.0	222.5
Cumulative	177.5	377.5	600.00

Program Development Objective(s)

The objective of the proposed program is to improve equitable access to basic services and strengthen accountability systems at the decentralized level.

Compliance			
Policy			
Does the program depart from the CAS in content or in other significant respects?		Yes []	No [X]
Does the program require any waivers of Bank policies applicable to Program-for-Results operations?		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 program meet the Regional criteria for readiness for implementation?		Yes [X]	No []
Overall Risk Rating: Substantial			
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Implementation Arrangements	X		
Description of Covenant			
The Recipient shall maintain: (a) at the Federal level, the Channel One Program Coordination Unit within Ministry of Finance and Economic Development (MoFED), to be responsible for day-to-day coordination of Program activities; (b) at the Regional level, in each Region participating in the Program, the Bureau of Finance and Economic Development (BoFED) for such Region, to be responsible for implementation and coordination of the Program in such Region; and (c) at the <i>woreda</i> level, in each <i>woreda</i> participating in the Program, the WoFED for such <i>woreda</i> , to be responsible for implementation and coordination of the Program in such <i>woreda</i> ; in each case for the period of implementation of the Program and with a mandate, adequate resources and staff satisfactory to the Association			
Name	Recurrent	Due Date	Frequency
Program Action Plan	X		
Description of Covenant			
The Recipient shall carry out the Action Plan in accordance with the schedule set out in the said Action Plan in a manner satisfactory to the Association.			
Name	Recurrent	Due Date	Frequency
Verification	X		
Description of Covenant			
The Recipient shall: (a) engage one or more Independent Verification Agent(s), with qualifications, experience, and terms of reference acceptable to the Association, for the purpose of verifying the achievement of Disbursement Linked Results (DLRs); (b) undertake, through such Independent Verification Agent(s), by May 31 and November 30 of each year, a verification process in accordance with the Verification Protocol			

and in a manner satisfactory to the Association, to ascertain whether the DLRs have been achieved for the period(s) under review; and (c) furnish to the Association corresponding verification reports, in form and substance acceptable to the Association, by May 31 and November 30 of each year.

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Bank Staff		
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I. STRATEGIC CONTEXT

A. Country Context

1. **Ethiopia is a large and geographically diverse country, with a representation of 98 nationalities and peoples who speak 93 languages, a total population of about 90 million, and a population growth rate of 2.6 percent (2013).** At that rate, the United Nations estimates that the population will reach 130 million by 2025. Ethiopia is projected to be among the world's 10 largest countries by population in 2050. IDA commitments to Ethiopia in recent years have been over US\$1 billion per year. Making progress on the two goals of the World Bank Group in Ethiopia is therefore important both for global progress and for the country itself.

2. **Ethiopia remains one of the world's poorest countries but has achieved high levels of economic growth and made substantial progress on social and human development over the past decade.** The country's per capita income of US\$550 (Atlas GNI, 2014) is substantially lower than the regional average of US\$1,257 and among the eleventh lowest worldwide. Ethiopia is ranked 173 out of 187 countries on the Human Development Index (2014) of the United Nations Development Programme (UNDP). However, economic growth has helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share of population below the poverty line has fallen from 38.7 percent in 2004/05 to 29.6 percent in 2010/11 (using a poverty line of close to US\$1.25/day). Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and Human Development Index ranking over the past decade. It is on track to achieve the MDGs for gender parity in education, child mortality, HIV/AIDS, and malaria. Good progress has also been made in universal primary education, although the MDG target may not be met.

3. **Ethiopia's constitution ensures a federal, democratic system.** Ethiopia's current government system was established in the early 1990s by the Ethiopian People's Revolutionary Democratic Front, which took over the country in 1991 after militarily defeating the previous regime. Since 2003 the country has actively pursued decentralization of governance to the regional and *woreda* levels—a *woreda* is a district with an average population of 100,000. Ethiopia marked an important milestone in August 2012 with the first peaceful and constitutional transition of power in Ethiopia's modern history, with the appointment of H.E. Hailemariam Desalegn as prime minister, following the death of Meles Zenawi, who had led Ethiopia since the Ethiopian People's Revolutionary Democratic Front took over.

4. **The government of Ethiopia (GoE) has completed its Growth and Transformation Plan (GTP) (2010/11–2014/15), which set a long-term goal for Ethiopia to become a middle-income country by 2025, with growth rates of at least 11.2 percent per year during the plan period. A second phase of the GTP is currently being finalized.** To achieve the GTP goals and objectives, the GoE has followed a “developmental state” model with a strong role for the government in certain aspects of the economy. It has prioritized key sectors such as industry and agriculture as drivers of sustained economic growth and job creation. The GTP also reaffirms the GoE's commitment to human development. The programs of development partners (DPs) are

broadly aligned with GTP priorities. A successor to the GTP, covering 2015/16 to 2020/2021, is currently under preparation.

5. **The Bank Group’s Country Partnership Strategy (CPS) for FY13–16 sets out the principles for engagement within this framework, as recently reviewed in the 2014 CPS Progress Report.** The CPS supports the GoE in implementing the GTP. It includes two primary pillars and seven strategic objectives. Pillar One (Fostering Competitiveness and Employment) aims to support Ethiopia in achieving the following strategic objectives: (a) a stable macroeconomic environment; (b) increased competitiveness and productivity (a particular area of focus for the IFC); (c) increased and improved delivery of infrastructure; and (d) enhanced regional integration. Pillar Two (Enhancing Resilience and Reducing Vulnerabilities) aims to support Ethiopia through (e) improved delivery of social services, and (f) comprehensive social protection and risk management. The CPS also has a foundation of (g) good governance and state building. In line with the GTP, gender and climate change have been included as cross-cutting issues in the CPS. The CPS Progress Report reconfirmed these strategic objectives while noting that the Bank Group will place renewed emphasis on a stable macroeconomic environment, increased competitiveness and productivity, regional integration, and the urbanization process.

B. Multisectoral and Institutional Context

6. **Over the last 10 years, Ethiopia’s overall record of achievement in basic service delivery has been striking.** Table 1 charts the evolution of key service delivery indicators and results in Ethiopia since 2006, showing commendable results across the board—for example, in reducing child mortality and increasing net enrollment rates (NERs) and the share of the rural population with access to clean water. The fact that the country is on track to meet several MDG targets is due in part to increased access to basic services. In this context, it is noticeable that the Bank’s Ethiopia Poverty Assessment (2014) identified access to basic services as one of the three main drivers of poverty reduction in Ethiopia, along with broad-based agriculture growth and targeted programs such as the Productive Safety Net Program (PSNP). This implies that improving access to basic services such as education and health not only promotes long-term growth but also helps reduce poverty, contributing to both pillars of the Bank’s global strategy.

7. **In parallel, the government’s financing for service delivery has grown from 58 percent in 2007 to 80 percent in 2014, reflecting a strong level of national commitment and ownership.** The government’s broad program of support is primarily in the form of the Intergovernmental Fiscal Transfer (IGFT) or block grant system, complemented by specific donor-financed programs and the recently introduced MDG Support Fund, which finances capital expenditures. This program of support is reflected in ambitious GTP service delivery targets, many of which have been achieved.

Table 1. Evolution of Key Service Delivery Indicators and Results during 2006–2014

<i>Indicator</i>	<i>Start of Protection of Basic Services Program (2006)</i>	<i>2014</i>	<i>Source</i>
Child mortality (ages 1-4) per 1,000	72	31	Demographic Health Survey (DHS)
Contraceptive acceptance rate (modern method)	14%	40%	DHS
Access to antenatal care	28%	41%	DHS
Immunization (DPT 3)	72.6%	91.1%	Health Management Information System (HMIS)
Net enrollment rate for grades 1–8	77.5%	90%	Education Management Information System (EMIS)
Gross gender parity index for grades 1–8	0.84	0.92	EMIS
Improved sanitation	38%	66%	DHS
People with access to agriculture extension services	4.04 million	13.09 million	Admin data from the Ministry of Agriculture (MoA)
Cereal productivity in quintals per hectare	15	20	Agriculture Sample Surveys
Access to improved rural water supply	46%	75.5%	Ministry of Water and Energy
<i>Kebeles</i> ¹ connected to all-weather roads	20%	64%	Admin data

8. **The country’s achievements in service delivery are supported by a decentralized system of governance that supports flows of information, resources, and accountability between different levels of the government and between service providers and citizens.** Ethiopia’s decentralized administrative structure involves regions, zones, and *woredas* (districts), and the constitution and legal framework commit the government to maintaining the integrity and capacity of decentralized administration down to the *woredas*. The federal government uses an allocation formula approved by the parliament to distribute block grants to regions. Most of the regions also use formulas to allocate block grants to *woredas*. The *woredas* rely on these block grant transfers to deliver important services such as education, agriculture, and health extension services and water and sanitation. This administrative and financial structure provides timely and predictable financing that has supported a steady and impressive increase in basic services throughout the country. Federal transfers to regions through the block grant system have increased dramatically in recent years, from US\$0.8 billion in 2006 to US\$2.2 billion in 2014. All regions except the Addis Ababa city administration receive block grant allocations from the federal

¹ Kebele is the smallest administrative unit of Ethiopia similar to a ward, a neighbourhood or a localized and delimited group of people. It is part of a *woreda*, or district.

government, putting the estimated number of beneficiaries at about 85 million. Currently, there are more than 1,000 *woredas* in the country. A large part of *woreda* budgets (about 80 percent) is consumed by salaries paid to service delivery staff, including teachers, agriculture extension workers, and health extension workers (HEWs).

9. **Service delivery efforts have also been bolstered by a set of game-changing citizen engagement activities, reflecting accountability measures recommended in the World Development Report (WDR) 2004 “Making Services Work for Poor People.”** The 2004 WDR recommended that improving service providers’ direct and indirect accountability to service users is the most effective way to improve basic services for the poor. Direct accountability includes citizen voice and feedback directly to service providers, while indirect accountability includes voice expressed through governments. In Ethiopia, the indirect route of accountability works well because of decentralization. Service providers are strictly accountable to local governments for producing results, but in turn, the local authorities are held accountable by the regional and federal governments for delivering basic services and reaching the delivery targets set in the GTP. The teachers, HEWs, and agricultural extension workers who deliver services are recruited and managed by the *woreda* leadership. Local competition for these leadership positions is significant, and officeholders are keen to reach their service delivery targets. This arrangement encourages local authorities to listen to citizens and take responsibility for results. More recently, citizen engagement has brought about game-changing gains concerning the direct accountability measures. The direct route of accountability has been reinforced by measures that strengthen financial transparency and accountability (FTA) (educating citizens on local budgets and service delivery goals); social accountability (improving citizens’ opportunities to provide feedback directly to local administrators and service providers); and impartial procedures to redress grievances (for example, instituting the independent Ethiopian Institution of the Ombudsman).

10. **Since 2006, the government’s overall program for service delivery has been complemented by evolving development partner (DP) support that has seen critical shifts through the Protection of Basic Services (PBS) Program 1 and 2 (2006, 2009) and PBS 3.** For example, PBS 1 catalyzed a new space for dialogue on service delivery. PBS 2 complemented this support with enhanced technical capacity, with a special focus on strengthening public financial management (PFM) in the basic services sector. PBS 3 consolidated these previous efforts, focusing on results and the imperative of a long-term governance agenda. DP financing has been a significant but considerably smaller share of overall program support, averaging approximately 27 percent per year over 2006–2014.

11. **Service delivery in Ethiopia now stands at a crossroads, around which DP support is realigning itself.** Government financing and ownership of the block grant system is at a peak and is nearing levels of complete financial sustainability. At the same time, DPs recognize that sustainability depends not only on financing but also on the quality of the institutional mechanisms that support service delivery capacity. Therefore, capacity support has become a major area of focus for DPs, to ensure that gains in areas such as citizen engagement, PFM, and monitoring and evaluation (M&E) systems strengthening are fully institutionalized.

12. **Equitable services and planning around the Sustainable Development Goals have emerged as major priorities to be reflected in the upcoming GTP 2 process.** While Ethiopia

has made great progress in improving access to basic services and in reaching many of the MDG targets by 2015, more effort is needed beyond these targets, including reducing horizontal (geographic) and vertical (income/wealth) discrepancies. The net enrollment rate (NER) of the bottom 10 percent of the *woredas* (in terms of results) is 19 percent, far below the national average of 83 percent. Vertical discrepancies are also significant, with the NER of the bottom quintile at 51 percent compared to 81 percent for the top quintile (Demographic Health Survey (DHS)-2011). There are also geographic and vertical discrepancies in health outcomes. For example, only 2 percent of births in the bottom 10 percent of the *woredas* are attended by skilled attendants (a major driver in reducing maternal mortality), compared to the national average of 20 percent. There are similar discrepancies across income/wealth quintiles: only 2 percent of births in the bottom quintile are attended by skilled attendants, compared to 18 percent in the top quintile (DHS-2011); access to clean water is only 28 percent for the bottom quintile but 91 percent for the top quintile. Thus, the benefits of growth are not shared equally, either across regions or across income/wealth groups.

C. Relationship to the CAS/CPS and Rationale for Use of Instrument

13. **The proposed program, a Program-for-Results (PforR) operation, will contribute to the two pillars of the Bank’s new global strategy—reducing absolute poverty and promoting shared growth.** It will also contribute to the two pillars of the Ethiopia CPS—(a) fostering competitiveness and employment, and (b) enhancing resilience and reducing vulnerability—and the related goal of bolstering good governance and enhancing state capacity. Promoting improved access to decentralized and quality basic service delivery is central to all three core CPS elements. The program contributes most directly to Pillar Two, as it builds human capital through improved education, health, and water services and agricultural livelihoods. It also promotes the resilience of the Ethiopian population and strengthens the network of rural roads. Similarly, because the two CPS pillars are fundamentally linked, the program also contributes to Pillar One, as the decentralized basic services that the PBS program supports are essential to competitiveness and employment. Finally, the program supports the good governance foundation, in that it promotes *woreda*-level transparency and accountability, strengthens the decentralized PFM system, and fosters demand-side governance through social accountability interventions.

14. **At the portfolio level, the program provides a solid foundation for the Bank’s programmatic approach of support to the GoE, and works critically to support the outcomes of related sectoral programs.** By supporting basic services delivery, the Bank invests much effort in promoting access to and quality of services at the decentralized level, and capacity building across a number of sectors. The Bank’s program includes support to general education through the General Education Quality Improvement Project (Phases 1 and 2); improved local agricultural investments through the Agricultural Growth Program 2 (AGP-2); local water, sanitation, and hygiene (WASH); the Urban Local Government Development Programme (ULGDP-2); and expanded public sector capacity building and governance (PSCAP), which was recently closed and will be followed by a planned PFM project. Efforts under social accountability are also being linked to the future implementation rollout for PSNP 4. Since the new program is expected to primarily support recurrent expenditures for *woreda*-level basic services, it will have a greater impact on sectors that require more recurrent expenditures, such as health, education, and agriculture, and relatively lower impact on sectors that require more capital expenditures, such as roads and water. Indeed the anticipated outcomes for these health, education and agriculture rely

also on the flagship programs of support just mentioned. Appropriately, the *woreda*-level expenditures supported by the PforR will favor the first three sectors, which will receive 97 percent of the funding, while water supply receives 2 percent and rural roads maintenance 1 percent (based on *woredas*' actual expenditures in the recent past).

15. The proposed PforR represents a new framework for engagement on service delivery, building on the lessons and successes of the PBS series. The PforR will replace Bank support to Subprogram A of the PBS, which finances *woreda* block grants through the intergovernmental fiscal transfer (IGFT) system. The PBS will continue through January 2018, but its focus will shift to building capacity at the *woreda* level and improving data collection to monitor results.² Section II outlines lessons learned from the PBS series that have informed the development of the PforR operation. It should be noted that the design of the PforR operation is also strongly influenced by more recent deliberations of the Inspection Panel (see Box 1).

16. The choice of instrument—a PforR—allows the program to address critical institutional capacity-building needs identified in the Inspection Panel report. This includes:

- Institutionalizing citizen engagement in social accountability, grievance redress mechanisms, financial transparency, and accountability. Interventions under the PforR are anchored around linking such initiatives to the client's good governance agenda.
- Providing a critical vehicle to address key safeguard issues by introducing a dedicated program of support for environmental and social management capacity to strengthen risk assessment from the ground up.
- Minimizing operational risks through strong fiduciary support, including a focus on enhanced PFM capacity and performance assessment, coupled with deepened financial oversight, procurement, and control mechanisms.

17. Critically, the PforR provides important leverage for policy reform. The PforR feeds into the government's broader program for service delivery, contributing approximately 10 percent of overall expenditures. The PforR will therefore finance and support the client's programs of expenditures, using vast program systems that are already supporting service delivery. Thus results achieved under the program will be amplified at a considerably higher scale. Against this backdrop, the institutional and capacity support provided under the program has the potential to be strongly transformative—particularly given the greater

² PBS 3 comprises two subprograms. Subprogram A - Basic Service Block Grants finances recurrent expenditures (salaries, operations, and maintenance) in the five basic service sectors (education, health, agriculture, water and sanitation, and rural roads) at the 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 subnational level—that is, each *woreda* decides the allocation of the grants to the five basic service sectors based on the needs in their *woreda*. Subprogram B - Strengthening Local Accountability and Transparency Systems (US\$114.6 million): While the country's decentralized, integrated system of fiduciary, administrative, and information governance is robust, the government and DPs 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. Subprogram B seeks to maintain and strengthen these systems, with a strategic focus on the *woreda* level as the front line of administration with responsibility for the PBS objectives. The subprogram includes three interrelated components: (B1) citizens' engagement; (B2) local PFM; and (B3) managing for results and (B4) risks and safeguards capacity support.

opening of space offered for citizen engagement at the local level, reflecting the government's focus on seeking citizens' satisfaction with development results.

Box 1. The Inspection Panel's Investigation Report on the Ethiopia-PBS 3

In 2013, the World Bank Inspection Panel received a complaint from Anuak refugees in Kenya and South Sudan who claimed that the Bank's support to PBS 3 was linked to human rights abuses. In July 2013 the Bank's Board authorized the Inspection Panel to investigate the allegations, which concerned the government's Commune Development Program (CDP) in Gambella. The government, which cooperated with the Panel's investigation, denied the allegations.

The Panel's investigation report, dated November 21, 2014, concluded that the alleged harm that the panel had investigated did not stem from PBS 3. However, the Panel expressed the view that given the geographical and sectoral overlap between the PBS and CDP, PBS 3 should have acted to mitigate adverse developments associated with the CDP, specifically those stemming from the relocation. Furthermore, in the Panel's view, PBS 3 risk assessments were not done adequately and the financial management (FM) system had weaknesses.

Management's Response to the Request, dated January 31, 2015, reiterates the impressive development achievements that PBS 3 has made possible and clearly states that the allegations of harm against PBS 3 set forth in the Request for Inspection are not supported by the Panel investigation. However, recognizing concerns about program appraisal and supervision, the response includes a comprehensive Management Action Plan comprising the following main elements: (a) supporting livelihoods (in Gambella and beyond); (b) screening the interface with the CDP and safeguards; (c) strengthening citizen engagement, social accountability, financial transparency, and grievance redress; and (d) enhancing FM.

Since the approval of the Management Action Plan there has been significant progress on a number of fronts:

The current Program-for-Results operation, Enhancing Shared Prosperity through Equitable Services (ESPES) has been devised as a new framework for engaging in decentralized basic services in Ethiopia. The operation will address critical institutional capacity-building needs identified in the Inspection Panel report. ESPES will play a critical role in facilitating the Management Action Plan: a majority of its disbursement-linked indicators (DLIs) focus on the priority elements described above.

Support to livelihoods has been advanced by agreeing with the government on a livelihoods program in borderland areas of the Horn of Africa, for both refugees and host communities in Gambella. The Agriculture Growth Project Phase 2, delivered in March 2015, includes two *woredas* in Gambella. PSNP 4 will include a review of progress in Gambella and scope to strengthen the engagement.

The government has approved the environmental and social screening tool to manage potential risks associated with any operational interface between Bank-financed projects and the CDP. In addition, a safeguards implementation manual and training program is under development

A medium-term road map to expand and deepen the Ethiopia Social Accountability Program Phase 2 (ESAP-2) is being prepared.

PBS Subprogram B and the proposed FM project are working to systematically support PFM reform at the *woreda*, regional, and federal levels. For example, the Regional Bureau of Finance and Economic Development in Gambella is reducing the backlog of consolidated financial statements.

18. **Finally, a shift toward a PforR also provides a natural progression for the program as reflected by independent program assessments.** In 2013, the Bank's Independent Evaluation Group produced a Project Performance Assessment Report for PBS 1, highlighting the suitability of PBS support to IGFTs (Subprogram A) in the form of a PforR. The assessment stressed the Bank's unique role in providing large-scale financial support for expanded service delivery executed by subnational governments. Unlike budget support through conventional development policy financing, a PforR would offer a number of results-oriented features: multiyear support,

focus on results rather than “prior actions” and “triggers,” and consistency with the Paris Declaration. From the outset, PBS disbursements have been linked to defined results as monitored under the Joint Review and Implementation Support (JRIS) missions. A PforR approach had been considered under PBS 3 but did not materialize because the instrument was so new and the program was multisectoral. Since then the PforR has been successfully introduced in the country portfolio for Health and urban local government development program (ULGDP).

II. PROGRAM DESCRIPTION

19. **Enhancing Shared Prosperity through Equitable Services (ESPES) is devised as a new framework for engaging in decentralized basic services in Ethiopia.** Building on almost 10 years of support for basic services delivery, the ESPES focuses on leveraging the government’s broad program of service delivery support to promote equity, enhance capacity, and institutionalize critical systems for service delivery, especially at the *woreda* level.

A. Program Scope

20. **The operation supports the government’s system for the delivery of basic services, which is supported by the Federal Government through the IGFT to the *woredas*—Ethiopia’s main instrument to finance decentralized service delivery.** Under this program of support, the *woredas* are responsible for the delivery of basic education, primary health care, agriculture extension, water supply, and rural road maintenance. The IGFT or block grant mechanism is primarily focused on recurrent expenditure: salaries and operational and maintenance costs. Approximately 85 percent of local-level allocations finance recurrent expenditures, the majority of which are for the salaries of front-line service providers, for example, teachers, agricultural development agents (DAs), and HEWs. Further information on program design is provided in Annex 1.

21. **The government’s overall program of support is reflected in the current growth and transformation plan (GTP), which includes broad objectives for service delivery in each sector.** The GTP aims to expand the coverage of basic services and improve their quality as a key mechanism to achieve the MDGs. Among the GTP’s seven key strategic pillars, (a) enhancing expansion and quality of social development, and (b) building capacity and deepening good governance are directly related to the envisaged ESPES PforR support. With the overall goal of maintaining a strong economic growth rate, the GTP gives special emphasis to agriculture and rural development, industry, infrastructure, social and human development, and better governance through decentralization and local decision-making. The GTP also accords high emphasis to increasing capital investment in infrastructure and in the social and human development sectors. Because the GTP goals inform and determine the structure of the IGFT, public expenditures on basic services have more than doubled in recent years. DP support is organized around these goals.

22. **The total program expenditure anticipated for *woreda*-level service delivery from 2015–2018 is US\$8.01 billion, of which the government is currently expected to finance 89 percent (including the identified financing gap).** The proposed PforR projects cost approximately 7.5 percent of total financing for this period (see Table 2). The estimate of the

government’s program of expenditure is based on the GoE’s Macroeconomic and Fiscal Framework (MEFF), which provides rolling estimates of medium-term (five years) government expenditure forecasts. Based on forecasts of federal block grant transfers obtained from the MEFF, *woreda* block grant transfers for the program period were estimated using historical trends. Support from other DPs includes resources from the African Development Bank (AfDB) and Italian Development Cooperation.

Table 2. Overall Government Program and Contribution of PforR
(Preliminary costs and financing in US\$ millions)

	2015/16	2016/17	2017/18	Total
<i>Woreda</i> Block Grants Total Value ^{a/}	1,948.5	2,598.0	3,464.0	8,010.5
Government Contribution ^{b/}	1,430.0	1,906.6	2,542.1	5,878.7
IDA Contribution	200.0	200.0	200.0	600.0
Other Development Partners	89.2	84.0	84.0	257.2
IDA Share	10.3%	7.7%	5.8%	7.5%
Financing Gap	229.3	407.4	637.9	1,274.6

^a Projected based on historical trends.

^b Projected based on past growth rate of government contribution to the block grants.

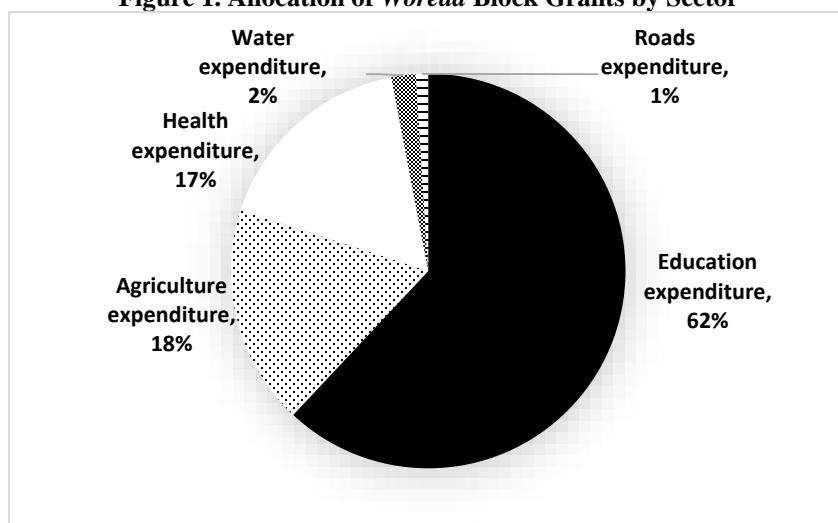
23. **There are grounds for confidence that any financing gap will be funded by the government.** A financing gap of almost 16 percent is anticipated, which the government stands ready to cover under the constitutional mandate for the block grant program—a constitutional obligation that the government has always met. Generally, the government creates the fiscal space, if needed, by slowing the implementation of its very large capital budget to meet these obligations. This has happened a few times in the history of PBS, including during implementation of PBS 3. It should be noted that this financing gap will most likely narrow through commitments from other DPs—the European Union (EU) and Austria Development Agency who are expected to come on stream during 2016/17. The overall DP share of the block grants dropped from 47% in 2006 to under 18% in 2015, and over time the government has increased its share. Some DPs are shifting from the current model to a different model of support. For example, DFID and the EU are orienting their assistance around greater sector support, ensuring stronger engagement with government ministries and working groups, with a focus on supporting key sectors such as education, health, water and sanitation in close coordination with the respective donor programs. Development partners are also focusing on enhanced capacity, such as prioritizing enhanced risk management and mitigation practices in relation to fiduciary, social and environmental safeguard issues. Irrespective of these changes, development partners are still providing their funds to the Ministry of Finance and Economic Development (MoFED) through government systems. While this has reduced MoFED’s flexibility, the government still has a lot of leeway to use these resources for block grants

24. **The Government’s commitment to the long-term sustainability of the overall program is reinforced by recent improvements in the fiscal balance and reduced dependence on aid financing.** Ethiopia brought down its fiscal deficit (excluding grants) from about 10% of GDP in 2004/05—just before the start of PBS 1—to 3% in 2011-12. During the same period, its dependence on external assistance has fallen as the share of external grants fell from 5% of GDP in 2004/05 to under 2% 2012/13. Deficits, including grants, fell to 1.2%. Despite the rapid increase

in expenditures (with annual nominal growth ranging between 18% and 22%), the share of expenditures dropped from 22% of GDP in 2005/06 to 18.1% in 2012/13, because of the country’s rapid economic growth. Domestic tax revenues rose from 11% to 14% of GDP, and non-tax revenues dropped from 3% to 1% of GDP. Meanwhile, the share of capital spending in overall spending rose sharply from less than half of total expenditures to over 60%. This, combined with rapid improvement in the overall fiscal situation, provides the government with a significant amount of fiscal space to meet its constitutional obligations. At the same time, most local *woredas* tend to have limited revenue capacity and thus continue to depend on the block grant resource.

25. **The PforR will prioritize local-level financing for education, health, and agriculture.** The vast majority of basic service delivery expenditure at *woreda* level covers these three sectors (see Figure 1). A World Bank report (84215-ET) assessed this system to be pro-poor, effective in getting results, and adding good value for money (VfM). The report also noted the importance of transparency and accountability in driving overall results and ensuring the pro-poor focus. While the assessment provides confidence that supporting *woreda*-level expenditures will improve results in a pro-poor manner, it is still important to ensure that effective *woreda*-level FM, procurement, and safeguards systems are in place to guarantee appropriate spending of funds.

Figure 1. Allocation of Woreda Block Grants by Sector



Source: “Improving Basic Services for the Bottom Forty Percent: Results of the Poverty and Social Impact Assessment of Decentralized Basic Service Delivery in Ethiopia,” Report No. 84215-ET.

26. **The PforR beneficiaries are the whole population benefiting from basic service delivery, particularly the bottom 20 percent of income groups and most poorly performing *woredas*.** Notwithstanding the pro-poor nature of the IGFT, recent evidence indicates that the extremely poor have not benefited equitably from Ethiopia’s recent rapid economic growth. The PforR ESPES program aims to ensure that the whole population benefits equitably from these services. The Bank study mentioned earlier demonstrated that the IGFT system is not only pro-poor, but also generally benefits women, more specifically for health and education, which account for almost 80 percent of the expenditure. This PforR will advance this achievement by focusing on those in the lowest income quintiles.

27. **Lessons from previous program implementation experiences and the Environmental and Social System Assessment (ESSA), and gender mainstreaming aspects have been incorporated into the program.** Sectoral interventions in health and agriculture include gender aspects in their design by encouraging an increase in trained HEWs with expertise in birth attendance and in the share of female trained development agents (Das). The number of female headed households receiving agricultural advisory services will also be tracked. A major conclusion emerging from the ESSA is the need to enhance the gender sensitiveness of public consultations by improving guidelines and leveraging women's groups. Under citizens' engagement activities for this program, specific gender targets have been set in the pre-budget discussions for financial transparency, and gender participation principles are followed in budget discussions under social accountability. The gender composition of training conducted to support the program will also be separately monitored. Finally, separate support is also provided to the Central Statistical Agency (CSA) to address gender gaps in basic service data identified through recent analytical efforts.

28. **The key challenges for maintaining the gains achieved so far include ensuring that IGFT grants follow predictable patterns by using regional fiscal distribution formulas, having adequate ground-level service delivery staff, and maintaining strong fiduciary controls.** A major challenge for local governments has been the high levels of staff attrition in both service delivery and fiduciary management. There have also been issues with appropriate follow-up of audit recommendations and slow internal audits, which may be related to frequent staff turnover. Demand-side good governance is generally a new phenomenon in Ethiopia, and pilots in this area have been highly appreciated by both service providers and citizens. However, as yet it is implemented in under a quarter of the *woredas* and there is an increasing demand to introduce similar activities in a more institutionalized and sustainable manner in new *woredas* and *kebeles*. Finally, evidence is emerging that those at the bottom of the income groups are not benefiting from service expansion as much as the national average. In particular, there is a high primary school dropout rate and, despite growing neonatal service, insufficient use of skilled birth attendants. This points to the need for a special focus on ensuring that low-income groups stay in the system and continue to use services.

29. The following lessons learned are integrated into program design.

- **Investment in decentralized basic services is transformative and can promote geographic and wealth equity.** In recent years, Ethiopia's record of achievement around the MDGs and in poverty reduction has been striking. Going forward, there is an opportunity for enhanced prosperity for the bottom 20 percent as well as for women. In practice, IGFTs have predominantly benefited the education, health, and agricultural sectors. Women have tended to benefit less through agricultural interventions, suggesting a need to adapt the intervention logic for future service delivery in this sector.
- **DP support for decentralized basic services is now focused on the delivery of a system that is both financially and institutionally sustainable.** Ethiopia's strong commitment to basic services is reflected in its increased financing in recent years. The added value of DP support is to ensure that investments are leveraged to strengthen the functioning of critical systems at all levels, especially the *woreda* level, for efficient service delivery.

- **The continuation of decentralized basic service delivery needs to be associated with a long-term program of enhanced capacity building and management, especially to strengthen the functioning of critical systems for service delivery.** In this regard, the DLIs supporting the program have a very strong emphasis on strengthened fiduciary, environmental, and social management. This is predictive of a major expansion of capacity support and expertise at the *woreda* level during the lifetime of the ESPES.
- **Supporting citizen engagement efforts alongside service delivery programs has the potential to radically improve governance and accountability.** In recent years, Ethiopia has made remarkable advances to enhance direct accountability through social accountability, financial transparency and accountability (FTA), and grievance redress mechanisms (GRMs). For this reason, the PforR has a strong focus on institutionalizing these gains and strengthening them through specific gender mainstreaming actions. The various facets of citizen engagement have evolved differently over the last three years, and their implementation arrangements could be better harmonized to make citizen engagement more effective in bringing about the desired change among citizens and service providers. The ESPES will enhance the implementation of interventions using an integrated model that will enable harmonization of social accountability, GRM, and FTA efforts at both the federal and local levels; putting the citizenry at the center is a more concrete and practical approach.
- **Social accountability, FTA, and GRM activities have opened up space for citizens' engagement at the local level.** The experiences from initial program rollouts in these areas have provided much confidence on how citizens' engagement initiatives can support development priorities. These experiences underscore the need for increased outreach to and awareness-raising with citizens, building on successes such as those under the social-media campaigning activities linked to FTA.
- **There is a strong imperative to ensure that the PforR adequately addresses any operational interface with the GoE-financed programs, including the CDP.** An operational interface may occur because of commonality of objectives, mutual impacts, geographic overlap, and concurrent implementation. In the context of risks arising from the CDP, the Bank's approach involves continued engagement, along with other DPs, in country-level dialogue with the GoE. Within this engagement framework, policy dialogue at the level of the Development Assistance Group (DAG) remains critical. Furthermore, the government has approved the environmental and social screening tool to manage potential risks associated with operational interface between Bank-financed projects and the commune development program. Specifically, the ESPES's support of improved management of social and environmental safeguards at the *woreda* level will address most of the concerns, since decisions on the implementation of decentralized programs are made at the *woreda* level.
- **A harmonized and coordinated approach among government, DPs, and other complementary programs is essential to strengthening decentralized service delivery.** The PforR accordingly orients its decentralized basic service support to that of other

donors, including the AfDB, UK Department for International Development (DFID), EU, Austria Development Agency, and Italian Development Cooperation, taking into account the instruments and approaches that they use.

- **Effective support to basic service delivery is strengthened by results-oriented interventions, including data verification, sectoral M&E systems strengthening, and rigorous analytical studies.** For this reason, the PforR’s DLI framework looks at the importance of enhancing results management capacity.

B. Program Development Objectives

30. The objective of the proposed program is to improve equitable access to basic services and strengthen accountability systems at the decentralized level.
31. The project development objective (PDO) monitoring indicators are as follows:
 - (a) Per capita increase in budgeted federal government block grant transfers to regions, excluding Addis Ababa
 - (b) Improved geographic equity in NER outcomes
 - (c) Improved geographic equity in Penta3 outcomes³
 - (d) Increased # of women household heads receiving agricultural advisory services
 - (e) Increased # of *woredas* screening projects for their environmental and social effects
 - (f) Increased # of *woredas* conducting pre-budget discussions
 - (g) PFM Benchmarking Rating system established in all regions

C. Program Key Results and Disbursement-linked Indicators

32. **The program is anchored around four sets of key results:**
 - (a) Ensuring equitable access to basic services
 - (b) Enhancing citizen engagement and environmental and social management capacity
 - (c) Deepening fiduciary aspects of basic service delivery
 - (d) Ensuring quality data access and results
33. **These key results are reflected in the PDO and cascaded throughout the DLI framework as follows.** Results area 1 responds to the first part of the PDO on improving equitable access to basic services and is then cascaded throughout DLIs 1–5 (shown below in Table 5). Results areas 2–4 respond to the second part of the PDO on strengthening accountability systems at the decentralized level. Results area 2 is reflected in DLIs 6–7, results area 3 in DLIs 8-10, and results area 4 in DLI 11. The full results logic supporting each key results area is elaborated in Annex 1, which highlights key inputs, outputs, intermediate outcomes, and final outcomes. The full DLI framework is elaborated in Annex 3.
34. **The general “theory of change” underpinning the key results areas centers on the effectiveness of the IGFT mechanism in expanding service delivery, supported by robust national accountability systems for citizen engagement, fiduciary management,**

³ Penta3: Pentavalent vaccine that combines five different vaccines in a single vial to protect against five diseases, namely, diphtheria-pertussis-tetanus, hepatitis B, and Haemophilus influenza type B (Hib), and which is administered in three doses.

environmental and social management capacity (ESMC), and quality data assurance. This theory of change is elaborated in the following paragraphs.

35. **As the results chain for results area 1 highlights (see Table 3), block grant resources have a demonstrated record of promoting service delivery for the poor at the decentralized level.** Coupled with improved accountability systems, increased access to public services has been a key driver behind improved human development outcomes and reduced poverty in the country. The recently completed Ethiopia Poverty Assessment (2014) noted that large-scale public investments in health and education have both increased countrywide economic growth and improved the welfare of the poor. As spending increases, the study notes, more rural poor households are able to gain access to previously unavailable services. Pro-poor sector spending as a share of the general government budget has increased steadily from 28 percent in 1999/2000 to 69 percent today.

36. **Since decentralization, the amount of funds *woredas* receive to deliver basic services has increased.** While block grant transfers from the federal government to regions increased from ETB 19.6 billion in 2009 to ETB 42.5 billion in 2014, block grant allocations from the regional government to the *woredas* during the same period increased from ETB 11.1 billion to ETB 23.6 billion. The amount of funds retained at the regional level for infrastructure and other regional-level costs has not changed significantly. In the five years preceding 2013/14, regions retained approximately 45 percent of the regional-level block grants per year; thus *woredas* continue to receive the largest share of the block grants.

Table 3. Results Area 1: Ensuring Equitable Access to Basic Services

<i>Activities</i>	<i>Intermediate results</i>	<i>Outcomes</i>
<ul style="list-style-type: none"> • Per capita increase in budgeted federal block grant to regions • Support to existing dialogue and analyses of IGFT rules and regulations within government • <i>Support to analytical works on the (a) unit cost of basic services; (b) sustainability of the IGFTs; and (c) domestic resource mobilization</i> • <i>Targeted education, health and agricultural awareness campaign^a with the objective of increasing the <u>NER</u></i> 	<ul style="list-style-type: none"> • Increased staffing of qualified civil servants delivering basic services, including HEWs, teachers, and DAs (proportion of which are women) • <i>Increased understanding on the sustainability and poverty impact of the IGFTs</i> • For households in poorly performing <i>woredas</i>, increased awareness about education 	<p>Increased service-delivery-related outcomes, including:</p> <ul style="list-style-type: none"> • <u>Number of students in grades 5–8</u> • <u>Women receiving antenatal care</u> • Equitable geographic and wealth distribution in access to education and health services^b • <u>Women getting agricultural advisory services</u>

Note: **Bold font** - DLI; Regular font - Program Action Plan; Underlined - Results Framework; *Italics* - Parallel Capacity Support Results Framework.

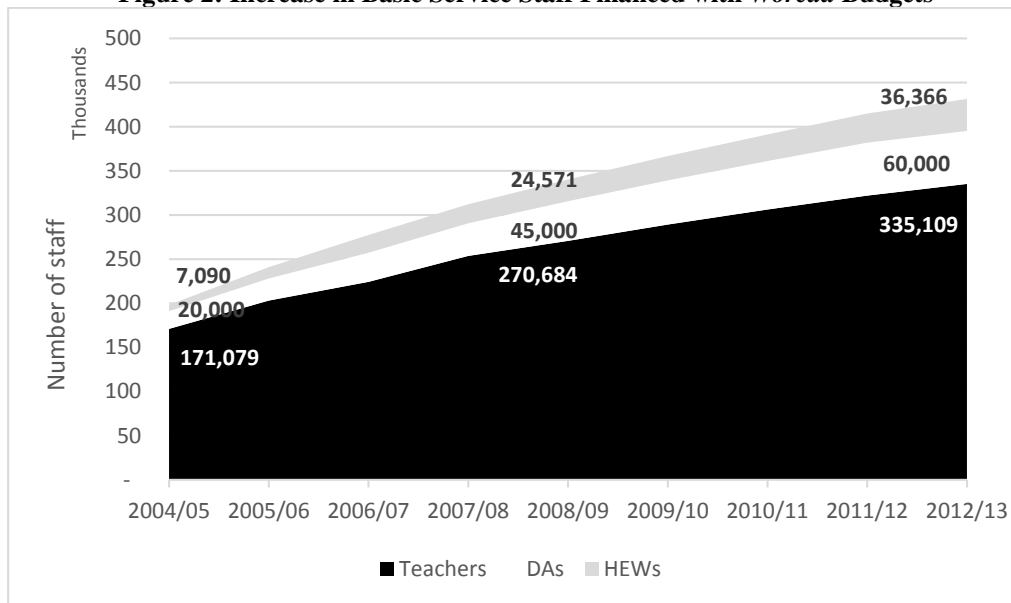
^a Within the bottom 20 percent of performing *woredas*.

^b See DLI 5 for a full description of the outcomes related to increased equity in access to basic services.

37. **Block grant resources that reach decentralized levels have been instrumental in deploying and sustaining more front-line service providers.** *Woredas* use most of these resources to hire additional staff in the basic service sectors. This has led to large increases in the

relevant types of staff financed through the *woreda* budgets. Figure 2 illustrates this point, showing the rapid growth in the number of HEWs, DAs, and primary school teachers between 2004/05 and 2012/13. During this time, the total number of teaching staff more than doubled, and the number of HEWs and DAs increased 450 percent and 300 percent, respectively.

Figure 2: Increase in Basic Service Staff Financed with *Woreda* Budgets



Source: PBS Secretariat.

38. **There have been substantial improvements in basic service delivery indicators as staffing has increased.** Primary and secondary enrolment rates have shown a steep upward trajectory. The number of children in primary schools, which stood at about 8.2 million in 2004, reached almost 15 million by 2012/13—an increase of almost 80 percent. At the same time, there has been great progress in bridging the enrollment gap between girls and boys at the primary level. The gender parity index for primary gross enrollment rate rose from 0.67 in 1999/2000 to 0.94 in 2012/13. On the health side, the contraceptive acceptance rate and deliveries by skilled birth attendants both increased by about 350 percent, and the under-five mortality rate has dropped by more than half. However, an area of concern relates to a slight bias against women regarding the delivery of agricultural extension services, which will be addressed in the relevant DLI.

39. ***Woreda*-level spending preferentially benefits the less well-off. From a horizontal equity perspective, regions that were historically more underdeveloped are rapidly gaining ground.** Part of the reason for this is that these regions receive a larger per capita share of the block grants. Gambella and Benishangul-Gumuz, two of the most underdeveloped regions in the country, have the highest percentages of their *woredas* spending more than twice the national average on basic services per capita. Basic service spending also benefits the *woredas* with a higher percentage of poor households, as well as those that have had more limited access to services in the past, regardless of which region they are located in. The association of NER for grades 1-8 and education spending, for example, is almost twice as high the national average for *woredas* that fall in the bottom wealth quintile. Similarly, in *woredas* with historically low levels of health outcomes, there is a higher association between spending and improved outcomes than for *woredas*

with average⁴ levels of health outcomes. From a vertical equity perspective, survey data point to a relative improvement in equitable outcomes. Since 2005, poorer households are improving faster than wealthier ones in NER, antenatal care, and contraceptive acceptance rate.

40. **A critical component of the PforR relates to the promotion of transparency, accountability, and citizen engagement.** This area covers a number of aspects, including improved oversight and control activities to ensure adequate handling of fraud and corruption (F&C) and complaints; enhanced environmental and social management capacities and the promotion of citizen engagement i.e. social accountability, financial transparency, and GRMs. The results logic for these interventions is shown in Table 4.

Table 4: Results Area 2: Enhancing Citizen Engagement and Environmental and Social Capacity Management

<i>Area</i>	<i>Activities</i>	<i>Intermediate results</i>	<i>Outcomes</i>
Social accountability F&C and grievance redress	<ul style="list-style-type: none"> • <u>Rollout plan for social accountability activities developed and adopted by the steering committee</u> • <i>Guidelines for implementing FTA-Social Accountability (FTA-SA) linkages developed</i> • <i>Information campaign for beneficiaries</i> 	<ul style="list-style-type: none"> • Expansion of social accountability activities to more woredas/kebeles • Citizens providing more feedback on service delivery • <u>Increase in number of woredas implementing FTA-SA linkages</u> 	<ul style="list-style-type: none"> • <u>Enhanced accountability through citizen engagement</u>
FTA	<ul style="list-style-type: none"> • <i>Use mass media to inform the public about complaint handling mechanism</i> • Technical assistance provided for pre-budget discussion and preparation of guidelines • Issue directive on conducting pre-budget discussion by woredas • <u>Posting of standardized service delivery template at basic service units</u> • Training manual for woreda councils' standing committee members on the process of budgeting, expenditure oversight, and audit follow-up prepared and training provided 	<ul style="list-style-type: none"> • Increase in percentage of woredas conducting pre-budget discussions, including percentage of women participating • <u>More citizens aware of their woreda's budget</u> • More woreda councils' standing committees proactive in budgeting, expenditure oversight, and audit follow-up 	<ul style="list-style-type: none"> • <u>More citizens providing feedback about the budget</u> • <u>Enhanced transparency through citizen engagement</u> • <u>Greater incorporation of audit follow-up into woreda councils' activities</u>

⁴ World Bank. Forthcoming. A US\$1 per capita increase in health spending is associated with a 300 percent higher impact on antenatal care and for deliveries by skilled birth attendants.

<i>Area</i>	<i>Activities</i>	<i>Intermediate results</i>	<i>Outcomes</i>
Fraud and corruption and GRM	<ul style="list-style-type: none"> Undertake capacity gap assessment of Regional Ethics and Anticorruption Commissions (REACCs) in developing states <i>Funds provided to increase number of ethics officers in woredas</i> <i>GRM structures and standardized regulations developed and adopted by regions</i> Assignment of woreda-level staff in the GRM 	<ul style="list-style-type: none"> Fraud and corruption (F&C) complaints data disaggregated by sector and type of case Ethics officers trained and deployed at local levels 	<ul style="list-style-type: none"> <u>Increased number of woredas with enhanced capacity to identify and prevent F&C activities</u> <u>Improved ability of citizens to have their grievances heard and acted upon</u>
Environmental and social issues	<ul style="list-style-type: none"> Environmental and Social Management System (ESMS) Operational Manual (OM) developed Environmental and Social Management System (ESMS) Operational Manual (OM) are customized by regions 	<ul style="list-style-type: none"> Improved implementation of environmental and social management procedures at <i>woreda</i> level <u>Training of woreda-level staff in ESMS</u> 	<ul style="list-style-type: none"> <u>Greater awareness of and improved adherence to guidelines in the ESMS OM</u>

Note: **Bold font** - DLI; Regular font - Program Action Plan; Underlined - Results Framework; *Italics* - Parallel Capacity Support Results Framework.

41. **An area of particular focus in the program centers on citizen engagement actions encompassing social accountability, financial transparency, and GRMs (see Annex 1 for complete overview).** These activities have had a major impact in opening up space for citizens’ participation in service delivery, across diverse sections of the community. In particular, the program will build on strong government commitments to encourage the institutionalization of social accountability, including the significant approval of medium-term priorities. The introduction of the PBS-Ethiopia Social Accountability Program Phase 2 (PBS-ESAP 2) in 2011 marked a dramatic change by using innovative social accountability tools, approaches, and mechanisms. During this period, ESAP 2 has directly reached over 33,104 citizens to sensitize them on their entitlement and responsibilities to plan and monitor basic services. *Woreda*-level social accountability processes have evolved from civic mobilization and awareness toward needs assessment, interface meetings between citizens’ representatives and service providers, and drawing up of joint basic action plans to improve basic service delivery at the local level. ESAP 2 is now implemented by 49 lead and 61 associated Social Accountability Implementing Partners (SAIPs) in 223 *woredas*, with regular monitoring; a forthcoming impact evaluation points to impressive results. Therefore, the program supports efforts to enhance social accountability beyond the donor-funded programs and align it more robustly to government policies and strategies. In this respect, the government has shown continued commitment to the social accountability agenda. Medium-term priorities and a road map for taking social accountability beyond ESAP 2 have been elaborated and approved by the program steering committee, and stakeholders will begin elaborating a comprehensive program document and rollout plan to deepen and expand social accountability and establish building blocks for sustainability and

institutionalization as ESAP 2 draws toward closure. As a related action, the program will also support the scale-up and deepening of ongoing GRM and FTA interventions (see Annex 1).

42. **Strong fiduciary controls are supported to provide assurances that financing resources are being put to their intended use and appropriate arrangements are in place for recording and reporting them.** The results logic for these fiduciary interventions is captured in Results Chain 3, detailed in Annex 1. The results chain highlights the rationale for supporting fiduciary investment through *woreda*-level PFM benchmarking and strengthened regional procurement regulation. To support these efforts, a series of capacity measures are envisaged, including training of key personnel based on the adoption of guidance protocols. Results Chain 4 on data quality and assurance further underscores the importance of analytical and assessment efforts to provide an evidence base for service delivery (see Annex 1).

43. **The selected DLIs reflect the overall theory of change and key results chains.** The specific DLIs and their rationale are listed in Table 5 and further discussed in Annex 1. The logic underpinning the DLI organization is as follows:

- DLIs 1-5 focus on enhancing equitable access to basic services, the first component of the PDO. Through DLI 1, the ESPES seeks to ensure continued expansion of financing for basic service delivery. DLIs 2 and 3 seek to promote quality of front-line service provision in the education and health sectors, which is flagged as a major risk under the Technical assessment. DLI 4 looks at access to upper primary education in grades 5-8, where dropout rates remain stubbornly high. DLI 5 draws close attention to promoting geographic and wealth equity, leveraging the success of the IGFT to date.
- In designing these DLIs 2-4 (sectoral outcomes) it is important to acknowledge the complementarity between the PforR and key sector programs such as the Health MDG PforR, AGP 2 and GEQIP-2. The combined efforts under all of the programs are required to achieve meaningful change. For example, in education besides teacher availability, other factors such as classroom shortages and high opportunity costs are binding constraints for improving enrolment. In agriculture, besides increasing the number of female DAs (with a view to overcoming cultural barriers), other factors such as tailoring of services to women's needs are also critical e.g. value chains, technologies, crop and seed types). These are all policy issues which go beyond provision of block grants, and beyond the sphere of this PforRs influence.
- The remaining DLIs focus on strengthening systems of accountability at the decentralized level. Under DLI 6 there will be strong efforts to promote strengthened safeguards management capacity at the local level, with a focus on the set-up and rollout of training programs and development of an Environmental and Social Management System Operational Manual. The ESPES will focus on deepening citizen engagement activities by rewarding results in the areas of SA, grievance redress, and financial transparency; the goal is to enhance the institutionalization of these arrangements under DLI 7. DLIs 8-10 will focus on building up Ethiopia's system of oversight in PFM, procurement, and F&C and will help reduce systemic fiduciary risks linked to basic service delivery. Finally, DLI 11 prioritizes efforts around supporting data quality assurance and rewarding the delivery of critical data to support diagnostic analysis in the area of service delivery.

Table 5-1: Development-linked Indicators and Their Justification

<i>No.</i>	<i>DLI</i>	<i>Justification</i>
Results Area 1: Ensuring equitable access to basic services		
1	Per capita increase in budgeted Federal Government block grant transfers to Regions, excluding Addis Ababa	The technical assessment has shown that expenditures in recurrent basic service delivery have been transformative and are pro-poor, with the potential to expand access and promote geographic and wealth equity. This DLI rewards a progressive per capita increase in block grant transfers to meet these priorities. At the same time, the DLI encourages an increased level of financial sustainability for the government’s broad program of support, which is an important priority in the medium-term perspective. With the IMF forecasting single-digit inflation over the next three years and the government’s commitment to keep inflation in the single digits, this DLI ensures that per capita transfers do not decline in real terms as well.
2	Increased proportion of qualified female agricultural development agents (diploma level)	The technical assessment noted that women are less likely to use improved farming techniques than men. Other studies have found that women have significantly less contact with DAs, ^a and their fields are 23% less productive. This is due to the deeply embedded sociocultural attitudes and practices that place cultural constraints on women. Similarly, DAs themselves face cultural barriers in advising women farmers, as local custom may prevent women from interacting with men other than their husbands. These realities highlight the need to promote outreach to women among agricultural DAs. The deployment of more qualified female agricultural DAs is seen as a critical precursor to this. Female DAs will be more accessible for female farmers. Therefore, this DLI seeks to augment the contingent of female DAs as a means to enhance women’s outcomes in the agriculture sector. The Results Framework then monitors the number of women benefiting from advisory services.
3	Increased number of health extension workers who have graduated with a Level 4 qualification	The technical assessment identified staff attrition and quality as key risks around successful service delivery. This DLI seeks to enhance basic-level training of HEWs to support results in the health sector. The basic-level training is understood as the number of HEWs trained in skilled birth attendance delivery. An important example of the effectiveness of the IGFTs is the improved health outcomes among households that had received a visit from an HEW, one of the primary staff hired through Bank Group financing. In particular, the Technical Assessment further underscores the need to support qualified staffing levels, responsive to the needs of vulnerable groups and women. In this respect training to Level 4, focused around skilled birth attendants is a priority.
4	Increases in total number of students enrolled (net) in grades 5-8, in all Regions, excluding Addis Ababa	The DLI is devised to address NERs for grades 5–8 where pupils are particularly likely to drop out. While Ethiopia has seen recent progress in expanding overall net primary enrollment (grades 1–8), this is mainly driven by progress in early years (ages 1–4). In FY12, the NER for grades 1–8 was at 85.4%, of which the NER for grades 1–4 was at 92.2% and the NER for grades 5–8 was at 48.1%. Dropout rates are higher in rural areas and among boys, because of labor opportunities. The ESPES investment has the potential to address a number of supply-side constraints on this issue to enhance school efficiency, quality, and facilities.

5a	Improved geographic equity in education and health service delivery outcomes, based on Net Enrollment Rate and Penta 3 Vaccine indicators for the bottom 10% of performing <i>woredas</i>	The technical assessment highlights how block grants preferentially benefit less well-off regions and <i>woredas</i> . In addition, block grant transfers appear to be pro-poor; a majority of the benefits of the spending accrue to households with lower incomes. This conclusion is further strengthened by looking at the association of <i>woreda</i> -level sectoral expenditure in two subgroups of <i>woredas</i> : (a) the bottom 10% in terms of outcomes, and (b) the bottom 21% in terms of poverty headcount. However the needs of lagging <i>woredas</i> are also recognized and therefore, the DLI highlights the need to improve geographic equity in education and health service delivery outcomes among the lowest performing <i>woredas</i> . The education results focus on improving NERs (grades 5–8) in the bottom 10% of performing <i>woredas</i> . The DLI includes a specific action around education awareness-raising campaigns for these <i>woredas</i> . The health results focus on improving Penta3 coverage in the bottom 10% of performing <i>woredas</i> .
5b	Improved wealth equity in education and health service delivery outcomes, based on Net Attendance Rate and Penta 3 Vaccine indicators for the Bottom Wealth Quintile group.	The technical assessment highlights how block grant transfers appear to be pro-poor; a majority of the benefits of the spending accrues to households with lower incomes. This conclusion is further strengthened by looking at the association of <i>woreda</i> -level sectoral expenditure in two subgroups of <i>woredas</i> : (a) the bottom 20% in terms of outcomes, and (b) the bottom 20% in terms of poverty headcount. However the needs of the lowest income quintiles are also recognized and therefore the DLI places emphasis on key health and education outcomes for the bottom wealth quintile, including NARs (grades 15–8) and Penta3 coverage. It is noted that this DLI captures Net Attendance Rate, which measures the percentage of children in the age group that officially corresponds to primary schooling who attended primary school (grades 1-8) in the given year. NAR data comes from national household surveys (from demand side) and captures whether a student is in school at the time of the survey, not just enrolled, in that given year. In this sense NAR marks an important complement to NER, capturing whether a student has maintained their presence in a school – thereby contributing to knowledge on drop-out tendencies
Results 2: Enhancing Citizen Engagement and Environmental and Social Management Capacity		
6	Improved Environmental and Social Management capacity at <i>woreda</i> level	The findings from the ESSA conducted in selected regions and <i>woredas</i> show that there is a relatively robust country system for environmental and social assessment with regard to institutions, policy, and legal frameworks. The major challenge is enforcing what is prescribed in the policy and legal documents, particularly at the <i>woreda</i> level. In many <i>woredas</i> , there are insufficient qualified staff to address environmental and social issues, and there is a general lack of clarity in terms of horizontal and vertical linkages between institutions responsible for environmental and social management and assessment. It is proposed that the ESMC be strengthened at the <i>woreda</i> level through awareness creation and training for staff and <i>woreda</i> council and <i>woreda</i> sector office heads to address these concerns and reduce systemic risks to projects/programs regardless of funding sources. An ESMS OM will be developed to strengthen the system at the <i>woreda</i> level.
7	Enhanced transparency and accountability through citizen engagement	A sustained focus on deepening citizen engagement by rewarding results in the areas of social accountability, grievance redress, and financial transparency builds on the ongoing operations under PBS 3 but deepens the engagement by ensuring enhanced institutionalization of these arrangements. An integrated set of citizen engagement interventions involving social accountability, FTA, and GRM will be deepened in participating <i>woredas</i> and a realistic expansion agenda introduced to reach new <i>woredas</i> . An integrated model will ensure that the various citizen

		engagement interventions are applied to communities and <i>woredas</i> in a systematic and harmonized manner to maximize impact by enhancing accountability and thus responsiveness by service providers while deepening the users'/citizens' role in influencing the nature and scope of services that they are entitled to. Institutionalization and sustainability will be critical areas of focus; hence, a strong focus on policy and institutional results will encourage systems to adjust to the needs for achieving desired institutionalization and sustainability.
Results 3: Deepening fiduciary aspects of basic service delivery		
8	Establishment of a government system for benchmarking <i>woreda</i> public financial management performance (the "PFM Benchmarking Rating")	The fiduciary assessment highlights the considerable presence of strong country systems that are already in operation, with regular MoFED reporting on the ground and the use of continuous monitoring reports. Among the key strengths noted in the assessment are transparent protocols for budget preparation, timely release of funds, good internal reports, and improved quality of reporting. Ongoing reform efforts were also considered to be encouraging. Challenges include the lack of network infrastructure, inadequate parliamentary oversight, weak professional audit capacity, poor property management controls, insufficient facilities, and inadequate follow-up on audit recommendations. It is proposed to develop a GoE system for benchmarking <i>woreda</i> PFM performance to address these concerns and ultimately strengthen assessment and evaluation systems.
9	Oversight function of regional procurement regulatory bodies has been improved	The fiduciary assessment highlighted findings related to procurement expenditure patterns, regional regulatory capacity, and information on <i>woreda</i> -level procurement systems. The experiences in the Afar, Amhara, Oromia, SNNPR, Benishangul-Gumuz, Somali, and Gambella regions indicate that an area of particular concern is the regional regulatory capacity. The assessment highlighted such consistent weaknesses as the availability of a dedicated budget allocation for regulatory bodies, reporting of audit reports to cabinet and parliament, mitigation actions in response to procurement audits, and limitations in procurement data collection and maintenance. Accordingly, the DLI will focus on strengthening the oversight function of regional procurement regulatory bodies.
10	Strengthened capacity of <i>woredas</i> to effectively respond to fraud and corruption, and complaints handling	The fiduciary assessment highlighted the considerable attention that the government has devoted to this issue, as reflected in the existence of legal frameworks, structures, and strong checks and balance systems through payroll control systems. Efforts under PBS 3 were also recognized as providing critical inputs toward strengthening accountability and transparency in this area, most particularly through the GRM and financial transparency under the subprogram on citizen engagement (B1). The assessment noted key challenges, including the capacity of <i>woreda</i> -level institutions to combat F&C; the recording and dissemination of disaggregated data; the need to strengthen the capacity of the <i>woreda</i> councils' budget and financing standing committees to provide effective oversight, transparency, and accountability in relation to the budget; the public understanding of F&C procedures; and limited coverage of social accountability initiatives. Therefore, a split DLI is proposed to ensure (i) strengthened capacity of <i>woredas</i> to effectively respond to fraud and corruption complaints and (ii) strengthened capacity of <i>woreda</i> council finance and budget standing committee members to provide effective oversight, transparency and accountability for budgets

Results 4: Ensuring quality data access and results		
11	Improved development information and data for service delivery	This DLI is expected to ensure adequate capacity for evidence-based analysis as a means of promoting quality development data and ensuring high-quality verification of PforR results.

^a Berhane, G., J. Hoddinott, et al. 2011. Evaluation of Ethiopia's Food Security Program: Documenting Progress in the Implementation of the Productive Safety Nets Programme and the Household Asset Building Programme.

D. Key Capacity-building and Systems-strengthening Activities

44. **Capacity-building and system-strengthening activities will be supported through the implementation of PBS 3 Subprogram B, which will continue until the end of the PforR.** Subprogram B1 supports the rollout and expansion of all citizen engagement activities, including social accountability and financial transparency arrangements. Subprogram B2 continues to support PFM reform efforts. Subprogram B3, Managing for Results, will continue to support the development of regional M&E systems-strengthening measures. An ambitious work program is under way to cost service delivery across each sector with a view to building knowledge on program sustainability. Sub Program B4, Risk and Safeguards Capacity Support, has been recently introduced to enhance capacity building in risk management in key areas of program implementation.

45. **In parallel, a common focus underlying the ESPES DLIs is to leverage and encourage capacity-support and systems-strengthening efforts, especially at the *woreda* level.** Capacity-building provisions are reflected in increased human resources for social accountability, grievance, and financial transparency interventions; rollout of support for *woreda*-based ethics officers to ensure quality oversight; and training of *woreda*-based staff in PFM. In particular, there are numerous provisions to promote ESMC at the *woreda* level. The DLIs also have a strong focus on supporting key institutional bodies at different levels, including the *woreda* council Budget and Finance Standing Committees, the Ethiopian Institute of Ombudsman (EIO), regional procurement bodies, and federal-level ministries, especially in the areas of quality data and results.

46. **A harmonized donor coordination team will play an important role in capacity support throughout the operation.** The DPs engaged in decentralized service delivery will create a new entity to replace the PBS Secretariat. This entity will mobilize the DPs around a common framework, irrespective of their modality of support to service delivery. The DPs will initially include the AfDB, Austria Development Agency, DFID, EU, Italian Development Cooperation, and World Bank. The entity will play a significant role in safeguards and risk management and in closer engagement with basic service sectors. It will also facilitate knowledge dissemination, sectoral monitoring, and policy dialogue. The ESPES will also benefit from technical support from the in-country Bank team and will further draw on available multidonor support. The in-country Bank team will continue to provide high-quality implementation support.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

47. **This PforR will rely on similar institutional structures and implementation arrangements developed for the PBS.** IDA financing for block grants will switch to a PforR

mode, and financing for block grants: the EU disburses through a Bank-managed multidonor trust fund (MDTF), and other partners—the AfDB, Austria Development Agency, and Italian Development Cooperation—disburse directly to the MoFED. In this respect Program Expenditures under PBS Sub Program A ended July 6, 2015; with all IDA and Multi Donor Trust Funds for Sub Program A being exhausted at that point. Program expenditures under the PforR will be considered eligible from July 8, 2015 onwards.

48. **The MoFED, the implementing agency for the PBS program, will continue in that role for the PforR, given its overall responsibility for supporting financial flows from the federal level to more decentralized levels and for ensuring that PFM systems work smoothly.** Within the MoFED, the Channel One Programs Coordinating Unit (COPCU) will be responsible for coordinating the day-to-day PforR activities across the basic service ministries, government bodies, and subnational government entities and for ensuring compliance with joint legal agreements. Improvements in COPCU staffing and management have demonstrated the government’s willingness to tackle implementation challenges.

49. **The regional governments’ Bureaus of Finance and Economic Development (BoFEDs) will continue to have responsibilities at the regional level similar to those that the MoFED has at the federal level.** In late 2011, all BoFEDs created new regional-level positions for Channel One Program coordination. This structure will continue under the PforR and will help strengthen the overall system’s capacity for ESPES implementation and follow-up. The BoFEDs’ responsibilities include (a) receiving, consolidating, and transferring financial and expenditure reports from the *Woreda* Office of Finance and Economic Development (WoFED) to the MoFED; (b) receiving *woreda*-level plans for the basic service sectors and assisting *woredas* in reconciling their plans within the agreed budget; (c) allocating budgets to *woredas* in line with the agreed fiscal transfer formulas; and (d) reviewing and consolidating results reports from the *woreda* governments.

50. **At the local level, the WoFEDs and Urban Administration Offices of Finance have responsibilities similar to those of the BoFEDs.** Their responsibilities also include (a) undertaking regular M&E and coordination with the *woreda* sector offices; (b) undertaking operational tasks such as planning, supervision, and FM; (c) submitting to the BoFEDs consolidated monthly reports, including monthly reconciliation of expenditures; and (d) reporting monthly on the actual use of block grants, including basic services subprogram resources at the local level and overall performance in relation to service delivery targets.

51. **Councils at the regional, zonal *woreda*, and *kebele* levels** (a) provide general oversight of the subnational government institutions involved in the PforR implementation; (b) review and approve annual development plans and budgets; and (c) facilitate information sharing and involve citizens in the planning, budgeting, and management of basic services delivery.

52. **Emphasis will be placed on effective coordination mechanisms.** A decentralized system of governance supports flows of information, resources, and accountability between different levels of the government and between service providers and citizens. In this respect, the teachers, HEWs, and agricultural extension workers who deliver services are recruited and managed by the

woreda leadership. Under the PforR sector ministries will also be more closely engaged to deliver respective DLIs.

53. **The results of the ESPES will rely on effective implementation, especially under PBS Subprogram B and ESAP.** In this respect a range of measures will be put in place: (a) the program's semiannual supervision mission will be done concurrently with PBS Sub Program 3, and will be informed by ESAP implementation; (b) training will be provided to both the government implementation team (COPCU and others) and the donor harmonization team, on ESPES and parallel support measures; (c) the World Bank ESPES team will be part of the design team for the future rollout of ESAP, including its bridging phase, to ensure consistency; and (d) a designated World Bank Task Team Lead and supporting team will remain on the ground in Ethiopia to ensure high-level implementation support. In addition, donor harmonization efforts will evolve under ESPES, charging the new donor coordination team with an enhanced focus on risk management and sector linkages.

B. Results Monitoring and Evaluation

54. **Both the government and the Bank will jointly assess overall progress toward the program's development objectives, using the government's own M&E mechanisms.** The government and the Bank will hold a semiannual joint review meeting, which will be incorporated into a JRIS mission with other DPs. A midterm review of overall progress will also be conducted.

55. **The ongoing PBS Subprogram B supports the M&E arrangements of ESPES by providing capacity support for Managing for Results.** Capacity support under PBS Subprogram B focuses on undertaking critical surveys, strengthening management information systems (MISs) in the sector ministries responsible for the five sectors that are decentralized to *woredas*, improving the quality of existing data, and conducting special studies that are needed from time to time. The PBS component also includes technical assistance and capacity building necessary to improve results M&E.

56. **Technical support will also be provided to the key sector ministries and various verification agencies involved in program delivery.** As part of the program action plan, M&E training is planned for key sector staff in the ministries of health, education, and agriculture. During the first year of program implementation, training on verification protocols will be provided to the CSA, Federal Ethics and Anticorruption Commission (FEACC), Office of the Federal Auditor General (OFAG), the Federal Public Procurement and Property Administration Agency (FPPAA), the National Planning Commission (NPC) and the World Health Organization (WHO).

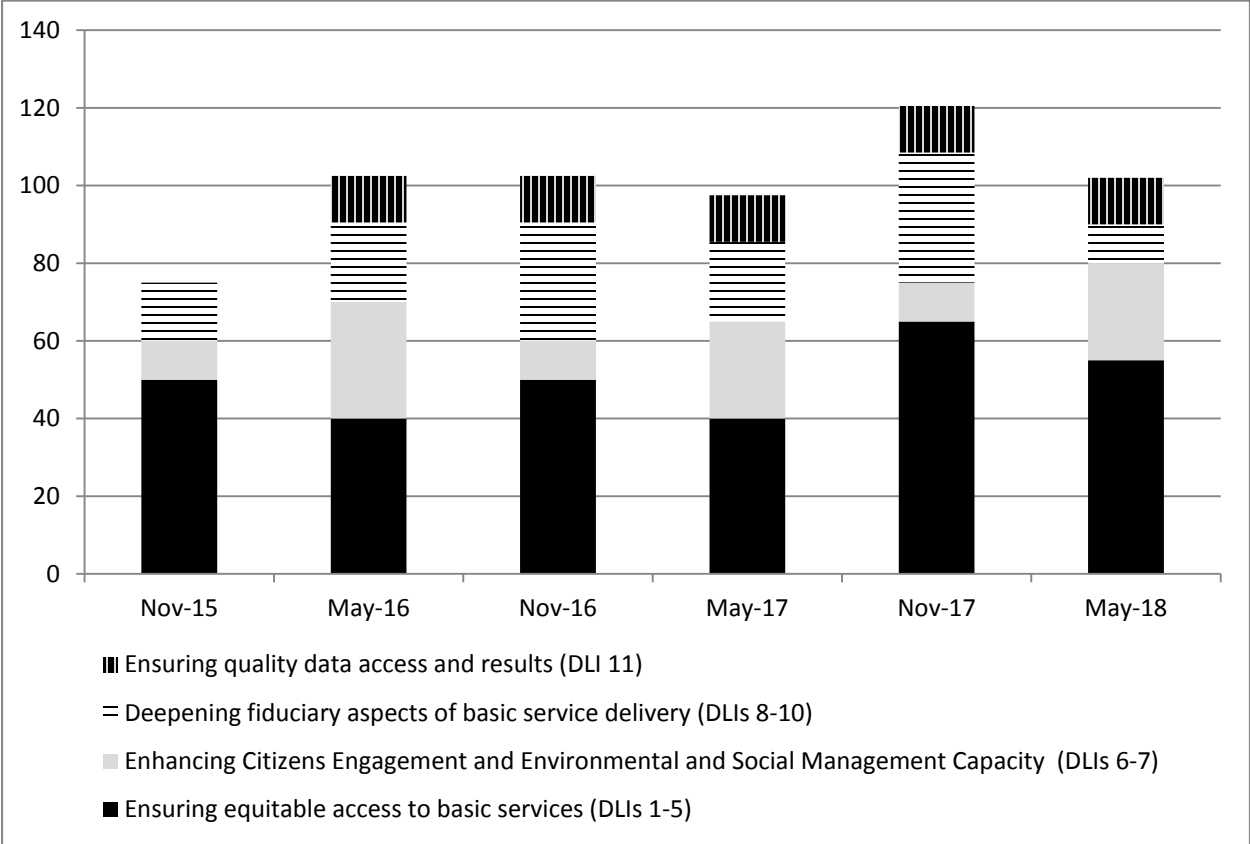
57. **The program will benefit from core evaluation activities planned under PBS Subprogram B.** This includes two rounds of process evaluation, which are expected in FY16 and FY18.

C. Disbursement Arrangements and Verification Protocols

58. **Disbursement arrangements.** The 11 DLIs selected for the PforR operation reflect key results that the government aims to achieve with the ESPES and key capacity-building and system-strengthening measures to mitigate the risks to the operation and to support the achievement of

results in basic services. Each DLI has been allocated a specific amount of the PforR resources, with the overall allocation of resources reflecting the relative importance of the results areas. In addition, an amount of up to US\$30 million will be available to finance program expenditures on account of DLRs achieved after July 7, 2015 but prior to the signing of the Financing Agreement and an amount of up to US\$45 million will be available for advances. The total allocations for the four results areas are as follows: (a) ensuring equitable access to basic services, US\$300 million; (b) enhancing citizen engagement and environmental and social management capacity, US\$130 million; (c) deepening the fiduciary aspects of basic services delivery, US\$110 million; and (d) ensuring quality data access and results, US\$60 million. The resulting disbursement profile for the PforR operation is shown in Figure 3.

Figure 3. Indicative PforR Disbursement Profile, in US\$ Millions



59. **The timeframe for achieving each of the DLIs, shown in Table 6, has been designed to take into account the government’s need for budget predictability and flow of funds.** An assessment and verification of progress toward each of the DLIs will be carried out according to the agreed timeframe and protocol (see Table 7). The indicators of achievement will be formally assessed each year during the November and May joint government and Bank review meetings so that the Bank can then make the PforR resources available to the government.

60. **A number of the DLIs are scalable, which means that the amount disbursed can be proportional to the progress made toward achieving relevant results.** The proportionate payment for results achieved on scalable DLIs will be made according to the details provided under the DLI Verification Protocol in Annex 3. Also, non-achievement of a DLI by the indicative

timeline will not result in immediate loss of the allocated resources; subsequent achievement of the DLI target during the project period will enable the government to access the allocated resources.

Table 6. Total Amount per DLI, in US\$ Millions, and Indicative Disbursement Schedule

<i>DLI</i>	Value (US\$ Millions)	Schedule					
		Nov 2015	May 2016	Nov 2016	May 2017	Nov 2017	May 2018
1. Per capita increase in budgeted Federal Government block grant transfers to Regions, excluding Addis Ababa	90	30	–	30	–	30	–
2. Increased proportion of qualified female agricultural development agents (diploma level)	30	–	10	–	10	–	10
3. Increased number of health extension workers who have graduated with a Level 4 qualification	30	10	–	10	–	10	–
4. Increases in total number of students enrolled (net) in grades 5-8, in all Regions, excluding Addis Ababa	60	–	20	–	20	–	20
5a. Improved geographic equity in education and health service delivery outcomes, based on Net Enrollment Rate and Penta 3 Vaccine indicators for the bottom 10% of Performing <i>woredas</i>	60	20	15	15	10	–	–
5b. Improved wealth equity in education and health service delivery outcomes, based on Net Attendance Rate and Penta 3 Vaccine indicators for the Bottom Wealth Quintile group	30	–	–	–	–	15	15
6. Improved environmental and social management capacity at <i>woreda</i> level	50	–	15	–	20	–	15
7. Enhanced transparency and accountability through citizen engagement	80	20	20	10	10	10	10
8. Establishment of a government system for benchmarking <i>woreda</i> public financial management (“PFM”) performance (the “PFM Benchmarking Rating”)	42	–	10.5	10.5	10.5	10.5	–
9. Oversight function of Regional procurement regulatory bodies has been improved	20	–	4	4	4	4	4

DLI	Value (US\$ Millions)	Schedule					
		Nov 2015	May 2016	Nov 2016	May 2017	Nov 2017	May 2018
10a Strengthened capacity of <i>woredas</i> to effectively respond to fraud and corruption complaints	30	10	–	10	–	10	–
10b Strengthened capacity of <i>Woreda</i> Council Finance and Budget Standing Committee members to provide effective oversight, transparency and accountability for budgets	18	–	6	–	6	–	6
11. Improved development information and data for service delivery	60		12	12	12	12	12
Total	600	90	112.5	101.5	102.5	101.5	92

61. **Verification agencies have been selected for both their expertise and independence regarding data quality and collection.** Verification agencies include the Central Statistical Agency (CSA), Office of the Federal Auditor General (OFAG), Federal Public Procurement and Property Administration Agency (FPPCAA), Federal Ethics and Anticorruption Commission (FEACC), National Planning Commission (NPC) and World Health Organization (WHO) (see Table 7). For most of the DLIs, the CSA is the verification agency of choice, especially given its role as a verifying body for other PforR operations. Other verification agents have been selected to provide credible verification, given their statutory independent status. The NPC will provide verification for DLI 11. The new entity to replace the PBS Secretariat will provide technical support for implementation of the verification in accordance with the agreed protocol. Orientation training will be provided to each verification agency, in advance of program preparation.

62. **Achievement of the results detailed in the DLIs will be verified in ways that are both credible and sustainable by using, to the fullest extent possible, the existing government system for data generation and sourcing.** In this way the operation will contribute to strengthening these systems. The verification protocol varies according to the nature of the DLI (see Annex 3).

63. **The program will regularly collect administrative data on performance with regard to financing the basic services (DLI 1); achieving results in the basic sectors (DLIs 2, 3, and 4); and increasing focus on equity (DLI 5).** The administrative data will be verified and presented during the November or May JRIS. In addition, the program will use sectoral information including EMIS, HMIS, the Poverty and Social Impact Assessment (PSIA), DHS and national Immunization Survey data sources to verify the achievement of results under DLI 5.

64. **A number of DLIs aim to strengthen local capacity in basic service delivery, including the fiduciary area (FM and procurement), handling F&C and effective oversight, ESMC, citizen engagement, and development information and data for service delivery.** The program also relies on administrative data to verify progress toward the relevant DLIs (see Annex 3).

Table 7. Summary of Proposed Arrangement for DLI Verification

DLI	Data source	Nov 2015	May 2016	Nov 2016	May 2017	Nov 2017	May 2018	Verifying body
1	MoFED	√		√		√		OFAG
2	MoA		√		√		√	CSA
3	MoH	√		√		√		CSA
4	Ministry of Education (MoE)		√		√		√	CSA
5a	PSIA, EMIS, HMIS	√	√	√	√	√	√	CSA
5b	MoH, EPHI					√	√	CSA, WHO
6	MoFED		√		√		√	CSA
7	MoFED , Social Accountability Management Agency, and CSA	√	√	√	√	√	√	CSA
8	MoFED		√	√	√	√		OFAG
9	BoFEDs (Oromia, Amhara, SNNPR, and Tigray)		√	√	√	√	√	FPPAA
10a	WoFED/BoFEDs/REACCs	√		√		√		FEACC
10b	WoFED/BoFED		√	√		√		OFAG
11	CSA, MoA, and MoH	√	√	√	√	√		NPC

IV. ASSESSMENT SUMMARY

A. Technical

Strategic Relevance

65. **Fiscal decentralization, instituted in 2003, is the GoE’s chosen platform to deliver government services at the local level to reach its development targets.** This service delivery modality has proven successful at expanding access to publicly provided basic services, as education and health outcomes indicate. The IGFTs comprise 26% of general government’s expenditure and have grown in nominal terms from ETB 7 billion in 2005/06 to ETB 52 billion in 2013/14. This expenditure has led directly to an increase in basic service staffing levels (illustrated in Figure 2) and has improved fundamental human development outcomes in education, health, and agriculture. The recently completed Poverty Assessment noted that large-scale public investments in health and education have both increased countrywide economic growth and improved the welfare of the poor.

66. **Despite these achievements, there is still a long way to go.** Poorer *woredas* and households still lag behind. The primary NER among *woredas* in the bottom decile of education outcomes stands at 19 percent, which is 77 percent below the national average. Among the bottom decile in health outcomes, access to births by skilled attendants (a major driver in reducing

maternal mortality) is only 2 percent compared to the national average of 20 percent. Wealth discrepancies are also present. The NER of the poorest quintile is 51 percent, and that of the top quintile 81 percent. In health, only 2 percent from the poorest quintile have access to deliveries with skilled attendants, compared to 18 percent in the top quintile.

67. **The GoE has committed to achieving middle-income country status by 2025.** Thus its primary focus is on development activities, and it has demonstrated sustained commitment in improving human development outcomes.

Technical Soundness

68. **The effectiveness of the IGFTs in achieving the MDGs has been analyzed in the recently completed PBS PSIA (World Bank Report 84215-ET).** The key findings are that the IGFTs are associated with a range of improved outcomes for the education and health sectors (see Table 8). In the agriculture sector, a farmer is significantly more likely to use enhanced farming techniques if his/her *woreda* increases its agricultural expenditure.

Table 8. Association between US\$1 Additional Per Capita Expenditure and Sectoral Outcomes

Health			Education		
ANC	CAR	SBA	NER 1–8	NER 5–8	PTR
3.5%	7.5%	11.7%	2.1%	4.3%	-3.0%

Note: ANC = antenatal care; CAR = contraceptive acceptance rate; SBA = deliveries by skilled birth attendants; NER = net enrollment rate for grades 1–8 and 5–8; and PTR = pupil-teacher ratio.

69. **In addition, these improvements seem to be preferentially benefiting historically disadvantaged areas and the poorer households.** More than 50 percent of the *woredas* in Gambella and 30 percent in Benishangul-Gumuz—which are among the regions that historically have been the most economically deprived—spend more than 110 percent of the national average per capita on the basic service sectors. Poorer *woredas* also receive a relatively larger per capita allocation; a *woreda* with a poverty rate of 1 standard deviation above the mean (42 percent) is predicted to receive about ETB 2.2 more per capita.⁵

70. **Education and health spending have a higher association with block grant transfers if the *woredas* are in the poorest quintile or are the lowest-performing in terms of outcomes.** For a *woreda* in the lowest wealth quintile, for example, the association of NER 1–8 with education spending is 4.1 percent, double the national average, and even higher for grades 5–8, at 6.2 percent. In the health sector, *woredas* in the bottom quintile, in terms of outcomes, have a much larger association with health spending. Antenatal care, for example, has an association of 6.9 percent with spending, nearly double the national average. For deliveries by skilled birth attendants, the figure goes up to 17 percent, nearly 50 percent above the national average. From a household perspective, analysis of DHS data from 2000 to 2014 shows that antenatal care and contraceptive use outcomes for households in the bottom wealth quintile have increased at a faster rate than those for the top wealth quintile.⁶

⁵ Khan et al., forthcoming. Forthcoming.

⁶ Ibid.

Program Expenditure Framework

71. **As an example of the political commitment to sustain and improve on service delivery levels, the amounts of block grant allocations are envisaged to increase over the medium term.** According to the May 2015 version of the government's medium-term MEFF, block grant allocations to regional governments are planned to grow annually at an average rate of about 36 percent over the next five years. Taking into account the IMF's inflation forecasts for the next five years, this translates into an average annual growth rate of around 26 percent in real terms.

72. **Predictability has been the cornerstone of the IGFTs.** The government's established decentralized system of economic governance provides predictable resource flows to *woredas*. Apart from small deviations in the Afar and Somali regions, the predictability of transfers to *woredas* is 100 percent. Similarly, over the last eight years budget execution for the IGFTs has equaled if not exceeded budgeted amounts, demonstrating high-quality planning and follow-through on commitments (See Annex 1 for further information).

Results Framework and Monitoring and Evaluation

73. **The ESPES results framework contains 25 indicators, including 7 PDO-level indicators.** The arrangements for M&E will be spread across several government agencies: the CSA, MoE, MoH, OFAG, and MoFED. The COPCU in the MoFED will take the lead in coordinating the collection of results from the various agencies. The semiannual JRIS missions will continue during the ESPES. They will be organized by a common donor coordination team in collaboration with the COPCU. The donor coordination team will continue to provide its overall independent technical analysis of program activities.

74. **Capacity constraints exist in several areas of M&E activities.** To address these shortcomings, extensive capacity-building activities will be undertaken. In addition, raising awareness among decision-makers regarding the results of M&E could better help them integrate findings into the planning of future work. Capacity constraints include the following:

- Lack of capacity of sectoral MIS offices to adequately assess and compile data and, when necessary, communicate with *woreda*-level officials.
- Lack of a nuanced understanding of the various indicators captured in the MIS by *woreda*- and zonal-level officials.
- Lack of hardware and staff to compile data from disparate databases into one unified dataset.
- Limited ability of decision-makers to use outputs of M&E data as inputs for planning purposes.
- Limited capacity to implement or contract out and supervise various assessments and surveys.

Governance

75. **The IGFTs are embedded in the constitution, which commits the government to maintaining the integrity and capacity of decentralized administrative responsibility.** Thus the IGFT system is subject to strict fiduciary probity. Financial controls on salary payments, which constitute a majority of *woreda*-level expenditure, are extremely strict and difficult to bypass. In addition, the decentralized nature of this economic governance system also ensures that *woreda* and *kebele* officials use funds to maintain and expand basic service delivery. As the 2004 WDR

noted, this is because of the “indirect route of accountability”: officials are held accountable to their constituents.

Economic Evaluation

76. **Given the scope of the project, including its nationwide reach, multisectoral nature, and wide-ranging impacts, it is difficult to perform an overall economic evaluation of the program.** However, there is strong evidence to support the proposition that *woreda* block grants have had a substantial impact on development outcomes and that these outcomes have resulted in a higher level of benefits than costs.

77. **As mentioned previously, the PSIA provides a strong argument for the effectiveness of block grant support.** It shows how incremental increases in the transfers led to increased local-level expenditure on basic services in education, health, and agriculture. Moreover, further work has shown that the size of this association is magnified among *woredas* in the bottom quintile with regard to wealth and outcomes.

78. **A separate evaluation by DFID of the VfM of the *woreda* block grant system showed a high cost-benefit ratio.** DFID’s calculation depended on a number of assumptions about the impact of investment at the local level to monetize the potential benefits. The estimate the study arrived at is 1.43, indicating that benefits far outweigh costs. Furthermore, this estimate is robust to changes in the underlying assumptions. There are significant margins for outcomes to undershoot before the estimates of the economic viability of the block grant system become questionable. Thus, block grant transfers appear to be an efficient and cost-effective mechanism to improve results.

79. **Regarding sustainability, the block grants are the primary mechanism by which the government plans to meet its development objectives.** As such, they receive top priority among government expenditures. Table 9 shows substantial growth in the block grants between 2005/06 and 2013/14 in both nominal and real terms. This increase has come despite periods of high inflation, as in 2009/10. Over the same period, block grant transfers have increased as a percentage of total government expenditure. This increase in block grant expenditure has also come as the DPs’ contributions to block grants have been declining (see Table 10), further highlighting the government’s solid commitment to continue to expand basic services.

Table 9. Growth in Block Grant Transfers to Regional Governments (ETB, Billions)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Nominal	7.1	9.3	13.5	16.6	19.6	25.5	30.6	35.6	42.5
Real	22.2	25.4	29.3	26.3	30.2	33.4	29.8	30.6	33.8
Grant % of total expenditure	32.4	34.7	39.0	36.9	37.7	36.6	39.9	39.0	37.4

Source: MoFED and PBS Secretariat.

Note: Real amounts based on 2011 ETB.

Table 10. DP Contribution to Block Grant Transfers

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
DP contribution to the block grants (%)	42.0	32.6	27.8	30.1	34.1	18.6	22.8	20.2

80. **As further evidence of block grants’ sustainability, the government has been pursuing methods to increase its tax revenue.** Between 2006 and 2011, the Ethiopian government increased its revenue from taxes by 400 percent, from ETB 10.9 billion to ETB 47.4 billion.⁷ According to a revenue collection study by the Adam Smith Institute, Ethiopia’s tax revenue is expected to reach ETB 160 billion by 2016/17. This increase comes on the back of a strongly growing economy that, over the 10 years to 2013, had maintained a growth rate of 11 percent.⁸

B. Fiduciary

81. **The assessment for the ESPES has benefitted from the Public Expenditure and Financial Accountability (PEFA) assessments that were conducted in 2014 at the federal level and in six of the regional states.** The key finding of the federal-level assessment is that in terms of budget credibility, Ethiopia has significantly improved its performance over the last three years. Bills are cleared on time and there are no arrears. The internal control system is comprehensive, widely understood, and effective at the federal government level. Audit coverage at the federal level has increased in recent years from 56 percent to 100 percent of budgetary institutions, and audit reports are produced in a timely manner. In terms of fiscal reporting, at the federal and regional level, monthly spending reports are prepared with no more than four weeks’ lag, while quarterly reports are available two weeks after the end of the quarter. The five weakest ratings relate to legislative scrutiny of the budget, monitoring of aggregate fiscal risk, public access to key fiscal information, procurement, and effectiveness in tax collection. According to the latest draft PEFA assessment, Ethiopia is among the top-five countries in Africa in terms of PEFA scores.

82. **As can be expected in a federal structure with nine regional governments, capacity in PFM across the country is variable.** The 2014 draft PEFA assessments for six regions show major improvements from the baseline in 2007 and the update in 2010. The areas that the regions need to focus on are improving the extent of unreported government operations, effectiveness in collecting tax payments, comprehensiveness of the information included in budget documents, weaknesses in multiyear planning, composition of expenditure outturn compared to the original budget, and availability of information received by service delivery units.

83. **The key findings of the *woreda*-level fiduciary assessment specific to the ESPES project are that strong FM systems are in place and the Integrated Budget and Expenditure System (IBEX) is rolled out to almost all *woredas*.** The annual budget is proclaimed and notified according to budget procedures by regions, and budget and actual expenditure are disclosed to the public in the local language; accounting, IBEX, and budget and internal audit manuals are available at all visited *woredas*; pool system guidelines have been

⁷ IMF Government Finance Statistics Yearbook.

⁸ World Bank national accounts data.

developed and issued, audit committees are established at the sample *woredas* visited, and funds are released to *woredas* in a timely manner; the segregation of duties on payment is generally satisfactory; the payroll system is strong, timeliness of reports of the visited *woredas* has improved, and 6 of the 8 regions closed their books of account and published their consolidated account in readiness for the annual audit for EFY 2005 (2012/13); and audit coverage has reached 58 percent on average, a significant improvement over the situation five years ago.

84. **The main areas of weakness in *woredas* are:** poor infrastructure and network capacity; weaknesses in internal audit; weak property management; weak cash control and delays in monthly bank reconciliation; high staff turnover; delays in budget notification; low financial audit coverage and audit backlogs in a few regional states; inadequate performance audits; and inadequate training of staff.

85. **Many of these issues are being addressed through the Expenditure Management and Control Program (EMCP) of the MoFED, which is partly funded through the PBS 3 project.** In addition, several of these challenges will be addressed through the stand-alone PFM project that is now being prepared and through the Program Action Plan (PAP) of the ESPES. The key DLI discussed and agreed with the government is to institute an annual benchmarking exercise for all *woredas*. This initiative will complement all the other ongoing reform activities and help guide the focus of the PFM reform program going forward.

Procurement

86. **Procurement expenditure at the *woreda* level is increasing at an average annual rate of around 30 percent, and the average share of procurement expenditure against budget has reached 20 percent.** The share of the five basic services sectors constitutes 50 percent of the total procurement expenditure. Hence, procurement has a role in meeting the PDO. On average, the volume of procurable expenditure in a *woreda* is ETB 13 million, with a maximum individual contract amount of ETB 40 million. In general, *woredas* record low-value contracts; it is not expected that there will be any high-value contracts that fall within the Operations Procurement Review Committee threshold during the entire life of the program.

87. **An established legal and institutional framework for managing procurement activities is in use.** In most *woredas*, the procurement function is organized under the Property and Procurement Process Owner responsible to the head of the *woreda*. Each *woreda* has a centralized procurement system (pool system) serving all sectors at the *woreda*. Skills are weak and staff numbers are low, with around 45 percent of the vacancies not filled. The procurement oversight responsibility rests with the regional procurement regulatory bodies. Strengthening the function of regional regulatory bodies is essential for establishing a reliable *woreda*-level procurement system.

88. **The assessment finds that the procurement system at the *woreda* level is adequate relative to the volume and value of procurement envisaged under the program and would provide reasonable assurance that the program will achieve the intended results.** However, given the procurement budget share, the likely number of small-value contracts, and the many discrete implementing agencies with their own control, the procurement risk is rated Substantial.

89. The assessment identified the following main issues in the procurement system in relation to program performance:

- (a) Regional regulatory bodies do not have an adequate and dedicated budget that they can plan and use to discharge their responsibilities properly. Most regulatory bodies lack independence.
- (b) Training for *woredas* procurement staff does not address specific needs and is not adequate in time and content to enable staff to gain capacity.
- (c) Regulatory bodies had not yet started activities to monitoring procurement performance and maintain procurement data, which is one of their core mandates.
- (d) The coverage of procurement audit by regional regulatory bodies is low. In addition, the quality and depth of the audits requires strengthening, and audit reports are not reported to policymakers.
- (e) Some *woredas* have not yet organized the procurement function separate from the accounting and disbursement function, as directed by the pool manual.
- (f) Works constitute the major share of procurement expenditure at a *woreda*, but the established pool system gives more weight to goods procurement. There is a need to clarify the role of *woreda* procurement units in dealing with works contracts and address the associated technical and contract management capacity, and ensure that training and capacity building pay sufficient attention to works procurement and contract management.
- (g) Gaps at the *woreda* level in procurement planning, bidding document preparation, evaluation, contract award, and contract management need to be addressed.
- (h) The *woreda* procurement function is severely constrained, with inadequate provision of basic facilities.

90. To address the identified issues and to further strengthen the reliability of the procurement system that will affect the PDO, a number of measures have been identified for implementation under the program. The measures are focused on strengthening the control and integrity of the system, to narrow the gap between proclamation and practice through enforcement and hands-on support to the *woredas*. They are as follows:

- (a) The program will include a DLI that will strengthen the function of regional regulatory bodies and lead to a much improved procurement system. It is recommended that regional regulatory bodies adopt and customize procurement performance indicators; commence data collection activities; and report on procurement performance in the three basic sectors (agriculture, health, and education) for the regional states of Oromia, Amhara, SNNP, and Tigray. Furthermore, as part of the DLI, regional regulatory bodies will reach procurement audit coverage of 25 percent by May 2017 and will present the audit report to the regional cabinet or parliament.
- (b) Regional BoFEDs will provide adequate budget and transport resources to enable regional regulatory bodies to carry out their function according to the proclamation.
- (c) The regional regulatory bodies will maintain a minimum of 15 percent *woreda* procurement audit coverage throughout the program period as a fiduciary oversight mechanisms.
- (d) The Federal Public Procurement and Property Administration Agency (FPPAA) will provide training in procurement audit to the staff of regional regulatory bodies. Simplified

documents that specify minimum requirements when conducting procurement audits for each procurement method will be prepared and made available to staff.

- (e) The FPPAA will ensure that the consultancy service for Procurement Gap Identification and Preparation of Simplified Directive and Procedure for *woredas* will be finalized successfully, and the regional regulatory bodies will customize, roll out, and implement the simplified directives and procedures. Structured and adequately timed training will be organized and delivered to *woreda* procurement staff based on the directive and procedures.

Fraud and Corruption and Complaint Handling Mechanism

91. **Ethiopia has a robust legal framework for addressing F&C.** Since 2001 the FEACC has been in place, with a mandate to expand and promote ethics and anticorruption education, prevent corruption (through review of working procedures and systems), and investigate and prosecute alleged corruption offences.⁹ The government has also declared that it follows a zero-tolerance policy toward corruption. The FEACC has received political support at the highest level in the country. Since 2007, all the nine regional governments have established their own REACC according to the regional laws. The FEACC is responsible for coordinating anticorruption efforts across regions and preparing a national report on anticorruption efforts across the country.

92. **The FEACC signed a Memorandum of Understanding (MoU) with the REACCs in April 2012 and established a closer relationship in carrying out mutual cooperation activities, building capacities, and compiling country-level reports on F&C that will be submitted to the Bank’s Integrity Vice Presidency (INT).** The government’s determination in controlling F&C is also demonstrated by the assignment of officers and focal representatives to some of the offices—including some *woredas*—and enhancing anticorruption alliances and movements.

93. **In nearly all regions, the REACCs’ performance has shown improvement from year to year, displaying the functionality of the arrangements.** The number of tip-offs has increased from year to year. The regional data collected for 2013/14 revealed that all the regions received about 5,931 tip-offs and investigated and/or prosecuted 1,665 (28 percent) cases (many of the tip-offs were irrelevant, either administrative or beyond the mandates of the commissions). The REACCs’ conviction rate rose from 16 percent in 2011/12 to 90.9 percent in 2013/14.

94. **There is an emerging structure and mechanism for internal control, accountability, and checks and balances on planning and expenditure by the *woreda* council.** The council structure has five standing committees, each with five members. The Budget and Finance Standing Committee has relationships or contacts with the WoFED core processes or a temporarily assigned committee for budget allocation, and in some *woredas*, it contacts internal auditors to discuss findings. The standing committee reviews the budget, ensures the fairness of allocations, and checks citizen complaints, expenditures, and projects.

95. **In all visited *woredas*, the incidence of salary leakage through ghost workers or absenteeism was zero, as the checking mechanism is very strong.** In all *woredas*, the salary control practices involve reviewing the attendance sheet, submitting a validation letter,

⁹ Proclamation No. 433/2005 and Regulation No. 144/2008 provide for the role, powers, duties, and responsibilities of the FEACC.

verification, and checking personnel and payroll records. In addition, payment is made through the banking system by comparing IDs with personnel records, a procedure that strengthens salary control practices. Similarly, there were no significant distortions or incidences of F&C or deviation on use of non-payroll and recurrent expenditure.

96. **Complaint handling mechanisms are in place at all levels of government in line with the requirements of the national proclamations (Proclamation 433/2005 and 434/2005) and institutional-level operational guidelines.** The proclamations clearly define the procedures to follow for corruption offenses as well as for administrative complaints related to the program. The system allows complainants to directly access sectors or the *woreda* administration, which is responsible for coordinating the overall functioning of the sectors within its jurisdiction. In general, the arrangement for handling citizen grievances in visited offices and *woredas* demonstrates the country's overall ability to identify and correct maladministration in the delivery of services and benefits.

97. **Some key challenges identified by the *woreda*-level assessment on F&C and complaints handling mechanism include:** (a) the need for strengthening the F&C structure at the *woreda* level by placing an adequate number of ethics and anticorruption officers in the WoFED and basic sector offices; (b) the need to build capacity in systematic recording and reporting of F&C; (c) the public's limited understanding of the procedures for providing F&C tip-offs; (d) disclosure and information sharing with the public on F&C activities and their low impact on *woredas*; (e) the limited enforcement power of the GRM implementing institutions at the regional and *woreda* levels, as they are not budgetary institutions; and (f) the limited capacity of most *woreda* council Budget and Finance Standing Committees to provide effective oversight, transparency, and accountability of budget and expenditures.

98. **Several initiatives are under way in Ethiopia to strengthen the institutional arrangements for combatting F&C.** Under this program, the DLIs that have been selected for risk mitigation purposes are to (a) strengthen the capacity of *woredas* to effectively respond to F&C complaints, including through disaggregation of data, and (b) strengthen the capacity of the *woreda* councils' Budget and Finance Standing Committee members to provide effective oversight, transparency, and accountability of the budget.

99. **For these reasons, the fiduciary risk for this operation is classified as Substantial after risk mitigation measures.** Overall, the fiduciary assessment concludes that the program FM and procurement systems are adequate to provide reasonable assurance that the financing proceeds will be used for the intended purposes, with due attention to principles of economy, efficiency, effectiveness, transparency, and accountability, and to safeguard program assets once the proposed mitigation measures have been implemented. Appropriate systems to handle the risks of F&C, including effective complaint handling mechanisms, have been agreed on and established. In addition to the DLIs, an action plan for mitigating risks has been included in the main report of the fiduciary assessment.

C. Environmental and Social Effects

100. **The ESSA reviewed the existing government systems related to the basic sectors supported by the ESPES, with regard to their capacity to plan and implement effective**

measures for environmental and social management at the federal, regional, and *woreda* levels. More specifically, the ESSA reviewed the government's regulatory and administrative framework and the relevant implementing agencies' capacity in this area, against the environmental and social effects that are likely to be associated with the ESPES-supported basic sectors (education, health, agriculture, water, and rural roads). The aim was to determine whether any measures are required to strengthen the government's environmental or social management system, especially at the *woreda* level; such measures would be detailed in a mutually agreed PAP.

101. The ESSA was guided by the six elements of environmental and social impact management incorporated in the World Bank's OP/BP 9.00, Program-for-Results Financing: (a) General Principle of Environmental and Social Management; (b) Natural Habitats and Physical Cultural Resources; (c) Public and Workers Safety; (d) Land Acquisition and Loss of Access to Natural Resources; (e) Indigenous Peoples and Vulnerable Groups; and (f) Social Conflict.

102. Activities to be financed by the ESPES are not expected to directly create negative environmental and social effects. However, the ESPES provides an opportunity to strengthen environmental and social assessment and management systems for managing activities in the ESPES-supported sectors that might give rise to such effects. The environmental and social effects of activities typically implemented by the ESPES-supported sectors at *woreda* level are generally site-specific and temporary. However, where there are environmental risks, (a) mitigation works can effectively reverse the potential negative environmental and social effects, and (b) public participation and consultation, possibly using local knowledge, could contribute to reducing or avoiding negative effects. Experiences from the implementation of the PBS 2 Local Investment Grant Pilot indicate, for the most part, that negative environmental and social effects can be prevented or mitigated with standard operational procedures and proper use of the country Environmental Impact Assessment (EIA) proclamation, procedures, and guidelines.

103. Although the ESPES program will not fund any activities that have negative social impacts, sectors supported by the ESPES are likely to implement projects that may require mitigating measures related to the loss of assets. Because the six core elements go beyond the traditional coverage of the EIA, the ESSA covered issues such as conflict resolution and health and safety in addition to potential issues related to the equitable access to services delivered by the five basic sectors supported by the ESPES and the ability of these services to meet the needs of Ethiopia's most vulnerable and underserved groups. The findings of the recent (2015) PBS 3 Enhanced Social Assessment and Consultation have been integrated in the ESSA to address the area of indigenous peoples and vulnerable groups, which goes beyond the traditional coverage of the EIA in Ethiopia.

104. The ESSA confirms that Ethiopia has an adequate institutional and legal framework for environmental and social management, including in the ESPES-supported basic sectors at the *woreda* level. However, despite the comprehensive laws that are in place, there are implementation shortcomings, particularly at the *woreda* level, that may affect the sectors' ability to respond to potential environmental and social impacts. An assessment of the institutional capacity, guidelines and procedures, and practices in environment and social management in the ESPES-supported sectors at the *woreda* level concludes that moderate-level environmental and social risks are associated with their activities. Risks largely emanate from (a) lack of capacity (b)

wide variation in the provision of guidelines and procedures across *woredas* and regions; (c) inefficient coordination between the different sector offices; and (d) a lack of operational budget dedicated to environmental and social management at the *woreda* level.

105. The ESPES provides an opportunity to contribute to improved environmental and social management systems by addressing the environmental and social management challenges of the ESPES-supported sectors, particularly at the *woreda* level. In this respect the ESSA identifies a key set of recommendations and priorities that can be successfully addressed during the program:

- (a) *ESMS OM*: The ESMS will include procedures for due diligence, identification of potential environmental and social effects, mitigation measures, implementation and monitoring plan, and performance assessment. This will help *woreda* staff screen projects for their environmental and social effects and monitor the implementation of any mitigation measures.
- (b) *Institutional capacity building*: Key positions, including environmental and social management specialists at different levels, will be filled to ensure adequate mechanisms and capacity to screen the environmental and social risks of investments in the ESPES-supported sectors, particularly at the *woreda* level. The staff will be provided proper training to undertake their activities related to environmental and social management. An annual performance assessment of environmental and social safeguard specialists will be undertaken.
- (c) *Citizens Engagement*: Continuing and strengthening the citizen engagement activities linked to ESAP and PBS 3 Sub Program B, including the following:
 - *FTA*: Continue the FTA component and strengthen the quality of FTA training, ensuring that more women and physically challenged groups are included in FTA activities (especially budget literacy training).
 - *Grievance redress*: Continue the GRM component of PBS 3 and ensure that *woreda*-level GRM officers receive training to be able to work with illiterate and the most vulnerable community members to ensure that their grievances are documented and addressed, build confidence in the GRM system, and post and publicize examples of successful GRM cases to make citizens aware that the system is working. Innovative communications approaches, including multimedia use, should be used to strengthen awareness about the availability of the GRM.
 - *Social accountability*: Continue the ESAP-2 and further strengthen linkages with the PBS FTA component to ensure that the most vulnerable communities have the necessary information to be able to engage in social accountability. The participation of the most vulnerable and underserved groups can be strengthened by including specific steps in the Social Accountability Guidelines and providing training for the SAIPs to ensure that the specific needs of the most vulnerable are accommodated.
- (d) *Recognition and reward*: An annual event will be organized to recognize and reward better-performing regions/*woredas* whose activities demonstrate sound environmental and social management.

106. The environmental and social risks associated with the program will be managed with two important priorities in mind. First, the overarching focus is to build countrywide capacity

in environmental and social management by developing an environmental and social management system operational manual to be adopted by regions and *woredas*, and training *woreda*-based staff on the manual and its use in project design and implementation. Second, for *woredas* where CDP is still under implementation, a screening tool that is agreed with the government will be applied to manage the potential risks from the interface between Bank-financed projects and CDP. *Woreda*-based staff and DAs who are implementing Bank-financed projects in the *woredas* with active CDP will be trained in the application of the screening tool. The tool will be rolled out as soon as the sectoral and regional consultations on its application are completed.

107. **Communities and individuals who believe that they are adversely affected as a result of a Bank-supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the WB’s Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of the WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

D. Integrated Risk Assessment Summary

Table 11. Integrated Risk Assessment Summary

Risk	Rating
Technical	Moderate
Fiduciary	Substantial
Environmental and Social	Moderate
Disbursement Linked Indicator	Moderate
Other	–
Overall Risk	Substantial

108. **A number of technical risks to the proposed operation need to be considered.** Of primary concern are fiduciary arrangements in support of basic service delivery. Overall, the fiduciary assessment concluded that the program FM and procurement systems are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes. At the same time, in some administrative areas—and especially at the *woreda* level—there is weak capacity on procurement and FM related to staff turnover and audit follow up for example. In addition, there is recognition on the risk that ESPES may have an operational interface with CDP because of commonality of objectives, mutual impacts, geographic overlap, and concurrent implementation. The level of risk associated with the technical implementation of the program is considered to be moderate in light of the vast experience to date and the findings of the technical assessment.

109. The overall risk rating is considered to be Substantial (see Table 11). The DLIs strongly reflect this rating, and are accordingly devised to directly address key risks that might arise. There is a strong prioritization on fiduciary risks related to financial management, procurement and fraud and corruption capacity building. There are robust safeguard interventions, as well as measures to ensure that ESPES and sector programs adequately address any operational interface with GoE-financed programs, including the CDP. Finally, there is a strong focus on supporting citizens' engagement efforts in order to improve overall governance and accountability mechanisms through enhanced social accountability, FTA and GRM activities.

E. Program Action Plan

110. **The PAP, set out in Annex 8, lists the activities that were recommended in the Technical, Integrated Fiduciary, and Environmental and Social Systems Assessments as critical to ensuring the adequacy of government systems and enabling progress toward the intended results** (see Table 12 for a summary). The activities aim at (a) improving program implementation capacity and enhancing understanding of equitable basic service provision in the country; (b) strengthening *woreda*-level capacity to plan and implement effective measures for environmental and social risk management, while also serving as a basis for provision of Bank implementation support on the environmental and social management aspects of the program; (c) strengthening procurement regulatory roles and *woreda*-level procurement capacity to ensure continuous probity in the use of resources at the local level; (d) strengthening regional-/*woreda*-level capacity to handle F&C and complaints; (e) enhancing FM capacity; and (f) strengthening citizen engagement arrangements.

Table 12. Summarized PAP

Action	When	Responsible body
Technical		
Provide training on M&E for relevant staff working in the three basic service sectors (education, health, and agriculture).	Year 1	MoE/MoH and MoARD
Undertake countrywide study and understand cost of basic services at the national level.	Year 2	MoFED
Undertake domestic resource mobilization study.	Year 2	MoFED
Provide support to enhance implementation capacity of the CSA, OFAG, FEACC, and FPPPA through independent consultants.	Year 1, 2 and 3	MoFED
Undertake sectoral awareness raising campaigns to ensure citizens are aware of opportunities and entitlements linked to service delivery	Year 1, 2	MoE/MoH and MoARD
Fiduciary aspects		
Financial management		
PEFA: Address the concerns raised by the PEFA and report on progress semiannually.	Years 1, 2, and 3	MoFED/BoFED
Accounting and reporting: Expedite the action on connecting <i>woredas</i> and sector bureaus with the BoFED through the <i>woreda</i> network.	Years 1, 2, and 3	MoFED/BoFED
Internal control <ul style="list-style-type: none"> • For payrolls: Roll out the existing payroll application software. • For property administration: Develop a property management application system to enhance the control. Experience can be shared from Tigray and Somali. 	Years 1, 2, and 3	MoFED/BoFED
External audit <ul style="list-style-type: none"> • OFAG and MoFED should provide necessary support, including staff, to clear the backlog of audit reports of the consolidated account. Special emphasis should be placed on backlog in Gambella. • Increase performance audit coverage. 	Years 1, 2, and 3	MoFED/BoFED
FM staffing and facilities: Enhance staff capacity and facilities to improve the performance of the pool system at the <i>woreda</i> level.	Years 1, 2, and 3	MoFED/BoFED
Procurement		
Regional regulatory bodies maintain a yearly minimum 15% <i>woreda</i> procurement audit coverage.	Years 1, 2, and 3	Regional procurement regulatory bodies/BoFEDs
Provide adequate budget and resources to enable regional regulatory bodies to carry out their function according to the proclamation.	Years 1, 2, and 3	BoFEDs
Provide training on procurement audit.	Year 1	FPPPA

Action	When	Responsible body
Customize, roll out, and implement simplified procurement directives and procedures in <i>woredas</i> .	Years 1 and 2	FPPPA/Regional regulatory bodies/BoFEDs
F&C and complaint handling		
Undertake capacity gap assessment of the REACCs in the Afar, Somali, and Gambella regional states.	Year 1	BOEDs/REACCs in Afar, Somali, and Gambella
Implement recommendations made by the capacity gap assessment of the REACCs in the Afar, Somali, and Gambella regional states.	Years 2 and 3	REACCs
Ensure timely submission of staff attendance verification sheet for salary control in all <i>woredas</i> , particularly for education and health institutions.	Years 1, 2, and 3	BoFEDs/WoFEDs
Establish a GRM at regional and <i>woreda</i> levels as a budgetary office with dedicated human resources.	Years 1, 2, and 3	BoFEDs/WoFEDs
Increase the number of <i>woredas</i> that have rectified audit findings from the current level of below 10%.	Years 1, 2, and 3	BoFEDs/WoFEDs
Prepare disaggregated data by sectors/issues related to complaint and F&C cases.	Year 3	Regional GRM offices/ REACCs
Inform the public through mass media (regional) about complaint handling procedures.	Years 1, 2, and 3	Regional GRM offices/ REACCs
Reducing systemic risk		
<p>The Bank team has been working on reducing systemic risks relating to FM. Steps include the following:</p> <p>(a) Financial system strengthening programs specific to the PBS Sub Program B (on capacity development) will continue, including completing the rollout of the IBEX to all <i>woredas</i> by the end of FY16, subject to power connections.</p> <p>(b) Support for system strengthening will be supplemented with several mechanisms including the restructuring of sub-program B of PBS 3.</p> <p>(c) During FY16 OFAG will prepare an action plan to strengthen the effectiveness of all regional audit offices.</p> <p>(d) The consolidated audit backlog in Gambella has been reduced, and the Bank will work with the OFAG, with a specific timeline and benchmarks for completely eliminating the backlog by FY16.</p>	Ongoing	MoFED, the Bank, and associated institutions

Action	When	Responsible body
(e) There will be annual benchmarking of PFM performance for all <i>woredas</i> starting in a few regions during FY16.		
Environmental and Social Management Capacity		
Assign one environmental and social management specialist in the MoFED as a focal person.	Year 1	MoFED
Assign environmental and social management focal persons in the BoFEDs and <i>woreda</i> ESPES-supported sectors.	Year 1	BoFED/ <i>Woreda</i> council
Undertake annual performance assessment of environmental and social management specialists.	Years 1, 2, and 3	BoFED/WoFED in collaboration with environment bureau/office
Recognize better-performing <i>woredas</i> whose activities demonstrate sound environmental and social management.	Years 2 and 3	Regional government
Organize forums to review the implementation of agreed actions on environmental and social management.	Years 1, 2, and 3	BoFED/WoFED
Citizen engagement		
At least four regions have standard GRM structures and standardized regulations and manuals.	May 2016	MoFED in collaboration with responsible agencies
Rollout of local-level awareness-raising campaign to familiarize citizens with SA, FTA, and GRM opportunities.	May 2016	MOFED
Disseminate guidelines for implementing the FTA-SA linkage in at least 223 <i>woredas</i> .	May 2016	MoFED
At least five regions have structures and standardized regulations and manuals.	November 2017	MoFED in collaboration with responsible agencies
Undertake a review of progress in implementing the FTA-SA linkage.	May 2017	MoFED
25% of <i>woredas</i> conduct pre-budget discussion, with 30% of women participating.	November 2017	MoFED

Annex 1: Detailed Program Description

1. Since decentralizing to *woredas* in 2003, Ethiopia has used IGFT in the form of *woreda* block grants as its primary means of financing local-level delivery of basic services. *Woredas* use these transfers to deliver services in primary health, education, water and sanitation, agriculture extension, and road maintenance. This government program has resulted in a dramatic increase in access to services, allowing Ethiopia to attain many MDG targets on schedule.

2. The Bank's ESPES Program PforR operation aims to support the government's *woreda* block grant system. It will link disbursements to key outcomes and outputs in the following four areas: (a) enhancing equitable access to basic services, (b) enhancing citizen engagement and environmental and social management capacity, (c) deepening the fiduciary aspects of basic service delivery, and (d) ensuring quality data access and results. The overall PDO for this operation is to improve equitable access to basic services and strengthen accountability systems at the decentralized level.

3. The ESPES will replace the basic service block grant portion (Subprogram A) of the PBS, which has supported the government's IGFT program since 2006. The PBS Subprogram B—strengthening local accountability and transparency systems—will continue until 2018. The PforR will therefore complement the parallel efforts under the PBS Subprogram B to promote citizen engagement, environmental and social management capacity, FM, and results. This complementarity is intended to promote synergies between the programs to significantly advance capacity-building efforts for and efficiency of decentralized service delivery.

4. This annex is organized according to the program's four results areas. Each section explains the rationale behind the objectives of the activities and presents the DLIs the ESPES program will use to measure the achievement of those objectives. The final section discusses the program's detailed implementation arrangements.

Government's *Woreda* Block Grant Program and the Equitable Delivery of Basic Services

5. The IGFT system is the primary mechanism by which the government plans to reach its development targets in basic service delivery. The IGFT system in Ethiopia has two tiers. First, the federal government allocates resources to regional governments according to an allocation formula, approved by the federal parliament that takes into account regions' expenditure needs, revenue-raising capacity, and infrastructure gap. Then, the regional governments similarly allocate resources to *woredas* by employing their own formulas. The usual practice in most regions is to adopt the federal-level allocation formula with some modifications to reflect regional contexts. Each region's allocation formula is also subject to approval by the regional council.

6. Funds transferred through the IGFT system are the main instrument by which *woredas* deliver basic services. As these are block transfers, *woredas* have the discretion to allocate the funds to the different sectors and between recurrent and capital spending. However, in almost all *woredas* about 65 percent of these funds are spent on delivering basic services in education, health, agriculture, water, and rural roads. Also, *woredas* mostly use these funds to cover their recurrent

costs (that is, salaries and operation and maintenance costs), which, on average, account for about 85 percent of their total spending. In fact, in some of the bigger regions such as Oromia and Amhara, recurrent costs at the *woreda* level takes up 88-90 percent of total spending.

7. Since the principal source of funding for basic service delivery comes from *woreda*-level transfers, the government’s commitment to development outcomes can be seen in the extent to which it increases allocations to the IGFTs and the trend in *woreda*-level basic service allocations. Between 2005/06 and 2013/14, the size of IGFTs has increased in nominal terms, in real terms, and as a share of total federal government expenditure (see Table 1). Further highlighting government commitment to this program, the DPs’ level of support to the federal block grant, which stood at over 40 percent at the start of the PBS in 2006/07, has decreased to about 20 percent in 2013/14.

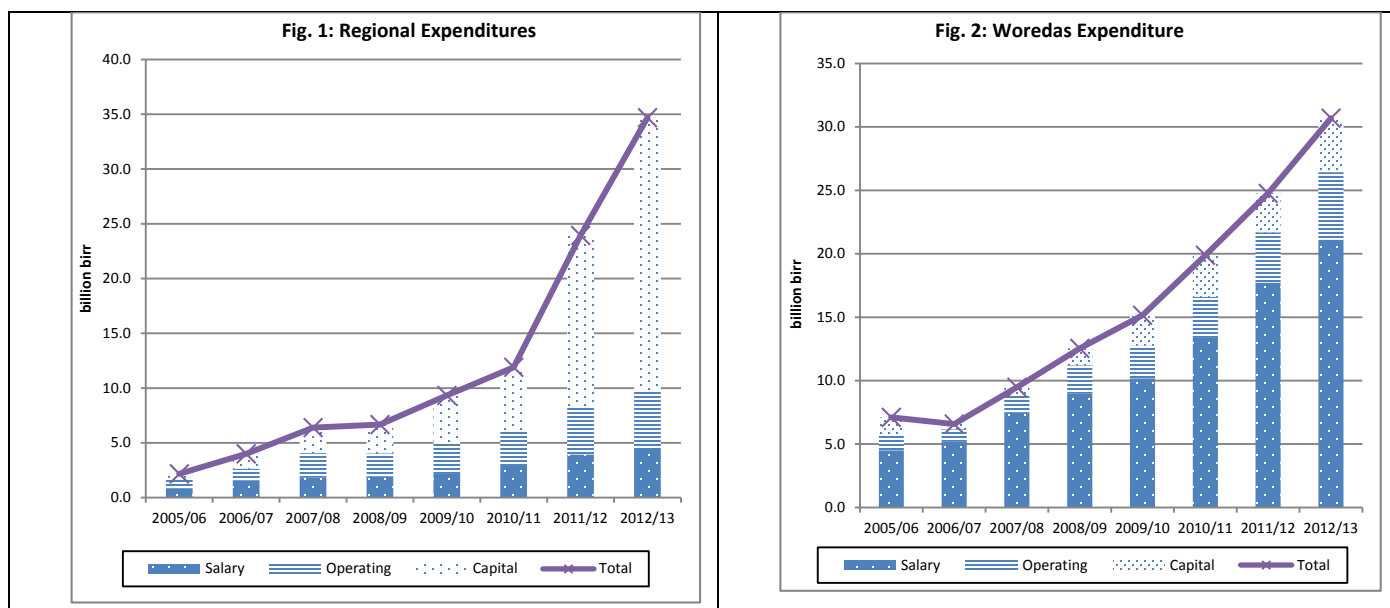
Table 1. Growth in Block Grant Transfers to Regional Governments (ETB, billions)

	2005/ 06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Nominal	7.1	9.3	13.5	16.6	19.6	25.5	30.6	35.6	42.5
Real	22.2	25.4	29.3	26.3	30.2	33.4	29.8	30.6	33.8
Grant % of total expenditure	32.4	34.7	39.0	36.9	37.7	36.6	39.9	39.0	37.4

Source: MoFED and PBS Secretariat.

Note: Real amounts based on 2011 ETB.

8. As Figures 1 and 2 show, at the regional and *woreda* levels there has been a consistent and substantial increase in basic service expenditures by subnational governments over the past decade. Overall, regional-level spending increased at an annual average rate of about 33 percent, and spending by *woredas* grew on average by 24 percent annually.



9. Table 2 provides the total project cost by year. According to the medium-term MEFF, the government is likely to continue increasing expenditures on the block grants (Table 2). The share represented by IDA's contribution is 7.5 percent.

Table 2. Overall Government Program and Contribution of PforR
(Preliminary costs and financing, in US\$ millions)

	2015/16	2016/17	2017/18	Total
<i>Woreda</i> Block Grants Total Value ^{a/}	1,948.5	2,598.0	3,464.0	8,010.5
Government Contribution ^{b/}	1,430.0	1,906.6	2,542.1	5,878.7
IDA Contribution	200.0	200.0	200.0	600.0
Other Development Partners	89.2	84.0	84.0	257.2
IDA Share	10.3%	7.7%	5.8%	7.5%
Financing Gap	229.3	407.4	637.9	1,274.6

^{a/} Projection based on historical proportion of *woreda* block grant transfers from federal block grant transfers.

^{b/} Projection based on past growth rate of government contribution to the block grants.

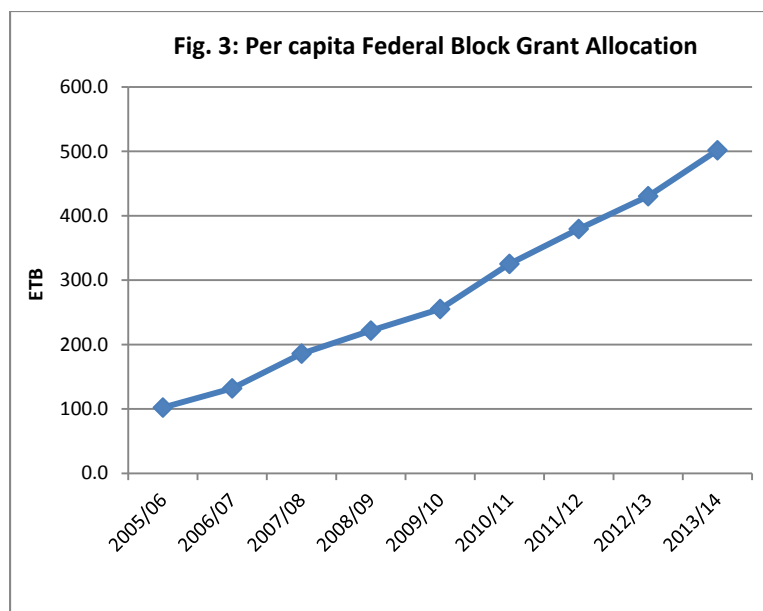
10. In terms of budget performance, there has been a very impressive achievement over the past years in terms of transferring allocated block grants to regions. As Table 3 shows, over the past six years budgeted block grant transfers to regions have been fully transferred. In fact in 2010/11 the actual transfers were larger than originally budgeted as additional funds were transferred to regions to help them accommodate the increase in the salary structure of the entire civil service system.

Table 3: Comparison of Budgeted and Actual Block Grant Transfers to Regions - million birr

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Budgeted	16,555.8	19,556.0	23,555.8	30,555.8	35,555.8	42,465.3
Actual	16,554.8	19,555.7	25,555.8	30,576.4	35,555.3	42,465.3
Performance (%)	100.0%	100.0%	108.5%	100.1%	100.0%	100.0%

Source: MoFED

11. As block grants are the major source of funding for basic service delivery, the ESPES seeks to ensure the continued expansion of block grant financing. This is captured in DLI 1—a per capita increase in federal block grant transfers to regions. As Figure 3 shows, this allocation has grown substantially over the last decade, and the trend is expected to continue.



Source: MoFED and CSA.

12. According to the Technical Assessment, financing service delivery at local levels has two inherent risks. Drawing from the Staff Tracking Survey, the Technical Assessment notes a high degree of staff attrition: staff are leaving their positions in search of slightly higher pay, more convenient working locations, or better working conditions. The second factor is the low quality of training that many service delivery staff have undergone. Many primary service staff have not met, or were hired before the introduction of minimum standards that are currently required for public service in their field of service.

13. DLIs 2 and 3 are designed to address these risks. They will focus on the agriculture and health sectors, which the technical assessment identified as the sectors requiring the most attention. The technical assessment was also able to draw econometrically significant associations between outcomes in these sectors and the expenditure to employ civil servants in them. In the agriculture sector, the technical assessment found that the more often an agriculture DA visited a field, the more likely that field was to use an improved farming technique. Therefore, DLI 2 will disburse against an increase in the number of agriculture DAs that are trained to the minimum standard. Similarly for the health sector, for households that were visited during the previous year by an HEW, the technical assessment found increased health outcomes compared to those that received no visit. Therefore, DLI 3 will ensure an increase in the number of HEWs that are trained to minimum standards, including the number of HEWs that are trained to level 4 and receive training in skilled birth attendance.

14. Another finding of the Technical Assessment was the ability of block grant transfers, over time, to promote more equitable outcomes on a geographic scale. The finding at the regional level was that poorer regions often benefit preferentially compared to richer ones, and at the *woreda* level it was found that poorer *woredas* within both poorer and richer regions often received a larger per capita transfer than wealthier *woredas*. This conclusion was further strengthened when looking at the association of *woreda*-level sectoral expenditure within two subgroups: (a) *woredas* making up the bottom 20 percent in terms of outcomes, and (b) those making up the bottom 20 percent in

terms of poverty headcount. On the basis of these factors, DLI 4 will disburse against a reduction in the differential between the national median access in health and education and the median access of *woredas* in the bottom 20 percent of that sector's outcomes as measured in 2007/08. For education, the outcome will be NER for grades 5–8 (DLI 4.1); in health, the outcome is the percentage of births attended by a skilled birth attendant (DLI 4.1). *Woreda*-level outcomes for these indicators are collected and released annually by each sector's MIS. In health, the numbers are reported in the *woreda*-based action plans released in October of each year; in education, the numbers are compiled and the NERs are calculated using the CSA's population data.

15. The Technical Assessment had other findings regarding income equity that were similar to the finding on geographic equity. Since 2005, the lowest wealth quintile (as measured by DHS data) has consistently outperformed the highest on a variety of health and education outcomes, including contraceptive acceptance rate, deliveries by skilled birth attendants, and immunization rates, among others. Analysis of the DHS data from 2000, 2005, 2011, and 2014 showed that there has been an increase in relative equity between wealth quintiles for contraceptive acceptance rate and antenatal care. No significant association was observed for the other tested health indicator, deliveries by skilled birth attendants, but this can be due to the low number of deliveries in Ethiopia. On the basis of these findings, DLI 5 seeks to ensure continued progress toward more equitable outcomes in health and education. DLI 5.1 will focus on the upper primary NER (grades 5–8) for education, and DLI 5.2 will monitor the percentage of births by skilled attendants. Data for these outcomes will be assessed through the DHS to be conducted in 2017; therefore, this DLI will disburse just once.

Citizen Engagement and Environmental and Social Management Capacity

16. Since 2006, transparency and accountability initiatives have played a key role in the Bank's engagement with the government in its IGFT system. Using the accountability triangle outlined in the 2004 WDR, the DPs' support to the PBS Subprogram B has contained numerous activities to enhance both the "supply" and "demand" sides of citizen engagement. This includes social accountability (SA), FTA, and GRM.

17. **Social Accountability.** The objective of the PBS - Ethiopia Social Accountability Program phase 2 (PBS-ESAP 2) is to strengthen the use of social accountability tools, approaches and mechanisms by (a) citizens and citizens groups, (b) civil society organizations (CSOs) called Social Accountability Implementing Partners (SAIPs), (c) local government officials, and (d) service providers, to make service delivery more equitable, effective, efficient, responsive, and accountable. The application of SA tools strengthens the capacity of both citizen groups and the government to work together; CSOs facilitate the process, from civic mobilization and awareness about entitlements to basic services and standards for those services, to needs assessment, interface meetings between citizens representatives and service providers, and creation of joint basic action plans aimed at improving basic service delivery at the local level. The process is underpinned by vigorous capacity building and dissemination of information. ESAP 2 is now being implemented by 49 CSOs in 25 percent of all the *woredas* in all regions of Ethiopia, and has directly reached over 33,104 citizens to make them aware of their entitlement to basic services and their responsibilities to plan and monitor such services.

18. The SA tools application cycle, which culminates in implementation of joint basic service delivery improvements plans, had progressed impressively as of end-March 2015: 96 percent of all participating *woredas* had elaborated joint service delivery action plans and were implementing them, and social accountability committees (SACs) constituted in an inclusive manner at the local level were functional in all *woredas*, playing an important role in monitoring implementation of the action plans. In addition, service providers' involvement in SA activities has increased considerably: 13,388 service providers have been trained on SA against an initial target of 9,897. Anecdotal evidence confirms that citizens' awareness about their rights, roles, and responsibilities with regard to basic service delivery has been increased, and service providers are becoming more responsive to users' needs.

19. Results attributable to SA initiatives are increasingly visible. The initiative has influenced not only allocations from *woreda* budgets, but also non-state actors like nongovernmental organizations, which often like the idea of convening to solicit funding to meet needs identified by citizens. Improvements have been registered in all sectors covered by the PBS: education (qualified teachers, additional classrooms, benches, toilets), agriculture (deployment of additional extension workers and improved timeliness in supplying agricultural inputs), health (improved conditions in health facilities, including expansion activities and supplies), rural roads (closing staff gaps where recruitment had been protracted, expansion and maintenance of critical local-level infrastructures like bridges that connect villages), and water and sanitation (new and repaired water points and creation of community hygiene places like latrines).

20. To complement regular monitoring efforts and better measure the program's impact, the World Bank initiated an impact evaluation (IE) that is based on a rigorous randomized controlled trial at the *woreda* level. The IE is envisaged to enable an unbiased estimate of the average program impact at the end of ESAP 2. Baseline data collection was completed in November 2013. The survey collected baseline information on the extent of knowledge of and participation/engagement in basic public services delivery; household access to and use of basic services; and perceptions of the quality and delivery of basic services in the intervention sectors. In addition, information was collected on a wide variety of "control" variables—level of education, poverty profile, and occupational status of household members—to help understand how different populations interact with and are differently affected by ESAP 2 programming. On initial analysis, the results of the ESAP 2 yielded findings comparable to previous studies of citizen engagement in service delivery in Ethiopia, and to other household-level data sets in Ethiopia.¹⁰ In general, the data suggest significant room for improving citizen engagement with services, relationships with public officials, and service quality. An end-line survey is planned for August/September 2015.

21. ESAP 2 currently covers about 25 percent of about 1000 *woredas*, and within participating *woredas*, a handful of *kebeles* have been involved. The structured SA initiative was introduced in Ethiopia only recently, and international experience shows that such investments in the citizenry take a long time to have lasting impact. Yet, for the interventions to be increasingly entrenched and sustained, there need to be institutional arrangements that will enable SA to live beyond the

¹⁰ Basic characteristics of households in the ESAP 2 data—such as household size, wealth, literacy, and education—closely resemble the characteristics of households in Ethiopia's National Census (Central Statistics Agency, 2007), in the National Demographic and Health Survey (Central Statistics Agency, 2011), and in the Ethiopia Living Standards Measurement Survey (Central Statistics Agency and World Bank, 2013). Data on citizen engagement indicators echo findings of Ethiopia's largest study on citizen engagement, the Woreda Citizen Benchmarking Survey (World Bank, 2013).

donor-funded programs and more robustly align to the government policies and strategies. GoE has shown continued commitment to the SA agenda. Medium-term priorities and a roadmap for taking SA beyond ESAP 2 have been elaborated and approved by the program steering committee, and as ESAP 2 draws toward closure, stakeholders will begin elaborating a comprehensive program document and rollout plan to deepen and expand SA and establish building blocks for sustainability and institutionalization.

22. **FTA.** In line with supporting the financing of decentralized service delivery, the GoE, with the support of PBS, has designed and rolled out FTA tools and used them to disclose regional- and local-level budget and service delivery information. More than 90 percent of all *woredas* and city administrations across the country are now posting information on their local budget, and more than 50 percent of service delivery facilities are posting their service delivery targets and performances. Budget literacy training, another FTA tool to enhance citizens' understanding about the budget process, service delivery issues, and citizens' roles, has been delivered to 420,357 citizens across the country (47 percent of them female) in all *woredas* and city administrations. These efforts greatly advanced government transparency and accountability in public spending and service delivery. A survey conducted in 2013 shows that 42.5 percent of respondents have seen the FTA templates posted in their jurisdictions, and 37 percent of those who have seen budget information have discussed it with their *woreda*/city officials, while 26 percent of them discussed it among themselves. Moreover, 37 percent of the respondents indicated that *woreda* and city officials had sought citizens' views on budgetary issues, and 43 percent revealed that the officials had sought the views of the people concerning the quality of public services.

23. **GRM.** There are two broad GRM structures in Ethiopia. The first is the EIO, a federal entity established by Proclamation No.211/2000, which reports to the parliament. The EIO has six branch offices, in Tigray, Amhara, Oromia, SNNPR, Dire Dawa, and Gambella. The second structure, established by the regional governments, is known as the Public Appeals and Grievance Hearing Office (PAGHO); it has its structure at the regional, *woreda* and *kebele* levels. PAGHOs are accountable to their respective chief administrators. At the *kebele* level, the *kebele* manager serves as a focal point for the GHO office. GHO offices have operational regulations and work procedures. PBS has supported the delivery of capacity-building training for 756 PAGHO officers across the country to help them better understand the importance of GRM and its procedures.

24. Under the ESPES, there will be a sustained focus on deepening citizen engagement by rewarding results in the areas of SA, grievance redress, and financial transparency. The goal is to enhance the institutionalization of these arrangements. Specifically, under DLI 6, the ESPES will promote continued rollout of the GRM structures and standardized regulations from the current three regions to three additional regions. It will also monitor the percentage of *woredas* that conduct pre-budget discussions, with the goal of reaching 25 percent of *woredas* by 2017. As there are concerns about female participation in the discussions, DLI 6 will also ensure adequate participation by women, with the goal of reaching 40 percent by 2017. Disbursements will also be linked to scaling up of SA activities to include additional *kebeles* in the 223 *woredas* in which the SA activities are under way, as well as to an additional 73 *woredas*, and to the development of guidelines for implementing SA-FTA activities in the SA *woredas* themselves.

25. ***Environmental and Social Management Capacity.*** The Environmental and Social System Assessment (ESSA) reviewed the existing government systems related to the basic sectors supported by the ESPES, with regard to their capacity to plan and implement effective measures for environmental and social impact management at the federal, regional, and *woreda* levels. More specifically, the ESSA reviewed the government's regulatory and administrative framework and the relevant implementing agencies' capacity in this area against the environmental and social effects that are likely to be associated with the ESPES-supported basic sectors. The aim was to determine whether any measures are required to strengthen the government's environmental or social management system, especially at the *woreda* level; such measures would be detailed in a mutually agreed PAP.

26. The ESSA was guided by the six elements of environmental and social impact management incorporated in the World Bank OP/BP 9.00, *Program-for-Results Financing*: (a) general principle of environmental and social management; (b) natural habitats and physical cultural resources; (c) public and workers safety; (d) land acquisition and loss of access to natural resources; (e) indigenous peoples and vulnerable groups; and (f) social conflict.

27. Activities to be financed by the ESPES are not expected to directly create negative environmental and social effects. However, the ESPES provides an opportunity to strengthen environmental and social systems for managing activities in the ESPES-supported sectors that might give rise to such effects. The environmental effects of the activities of the sectors supported by the ESPES at the *woreda* level are assumed not to be significant, considering that most of the works are relatively small and confined to limited geographical areas. However, where there are environmental risks, (a) mitigation works can effectively reverse the potential negative environmental and social effects, and (b) public participation and consultation and possible use of local knowledge, could help reduce or avoid negative effects. Because the six core elements go beyond the traditional coverage of the EIA, the ESSA covered issues such as conflict resolution and health and safety, in addition to potential issues related to equitable access to services delivered by the five basic sectors supported by the ESPES and the ability of these services to meet the needs of Ethiopia's most vulnerable and underserved groups.

28. The ESSA confirms that Ethiopia has an adequate institutional and legal framework for environmental and social management, including in the ESPES-supported basic sectors at the *woreda* level. However, despite the comprehensive laws that are in place, there are implementation shortcomings, particularly at the *woreda* level, that may affect the ability of the sectors to respond to potential environmental and social impacts. An assessment of the institutional capacity, guidelines and procedures, and practices in environment and social management in the ESPES-supported sectors at the *woreda* level concludes that there are medium-level environmental and social risks associated with their activities

29. Under DLI 6 there will be further efforts to promote strengthened safeguards management capacity at the local level, with a focus on setting up and rolling out training programs and developing an Environmental and Social Management System Operational Manual. The manual will include procedures for due diligence, identification of potential environmental and social effects, mitigation measures, implementation and monitoring plan, and performance assessment. It will be customized at regional and *woreda* levels, based on their specific circumstances.

Government's Fiduciary Improvement Activities

30. The need to build up Ethiopia's system of oversight in PFM and procurement has long been recognized. The PBS projects have supported the government's efforts to improve its fiduciary controls in these areas since 2006, and the ESPES will continue in this vein. On the basis of the findings of the recently completed fiduciary assessment, and building on the successes achieved under the PBS over the last eight years, the ESPES includes three DLIs dedicated to strengthening the fiduciary integrity of Ethiopia's systems.

31. The fiduciary assessment highlighted the considerable presence of strong country PFM systems that are already in place, an achievement of both the government's commitment and the DPs' support through Subprogram B of the PBS. Some of the key strengths noted include transparent protocols for budget preparation, the timely release of funds, good internal reports, and a continuing improvement in the quality of reports, as well as the MoFED's regular reporting of issues in the field and production of continuous monitoring reports. The report also noted some challenges: lack of network infrastructure at the *woreda* level, inadequate parliamentary oversight, weak professional audit capacity, poor property management controls, insufficient facilities, and inadequate follow-up on audit recommendations.

32. To address these concerns and to strengthen the PFM sector's assessment and evaluation systems, the government and DPs have agreed to develop a system for benchmarking *woredas'* PFM performance. This will be the focus of DLI 8. With technical assistance from DPs and external consultants as necessary, the government has agreed to a series of steps over three years of the ESPES—identifying, reviewing, and adjusting the specific PFM indicators to be included in the benchmarking; rolling them out to all regions; and adopting an evidence-based system of PFM evaluation and benchmarking.

33. On the procurement side, the fiduciary assessment examined procurement expenditure patterns, regional regulatory capacity, and information on *woreda*-level procurement systems. One area of particular concern was the consistent weakness in regional regulatory capacity. Other weaknesses highlighted were the lack of availability of a dedicated budget allocated to regulatory bodies, inconsistent reporting of audit reports to cabinet and parliament, inconsistent follow-up on mitigation actions recommended in audit reports, and limitations in procurement data collection and maintenance.

34. Under the ESPES, the performance of regional procurement regulatory bodies will be strengthened through the actions described under DLI 9: customizing performance indicators, developing specific data collection formats, commissioning procurement audits for a minimum percentage of procuring entities, and reporting the results of those audits to the regional-level cabinet or parliament.

35. Of primary importance regarding the government's strength in fiduciary oversight is its capacity to identify, resolve, and prevent F&C. The Fiduciary Assessment examined the extent to which the government's determination and action in this area has been successful and what further steps can be taken to improve its performance. The assessment highlighted the considerable attention the government has devoted to F&C, reflected in the existence of legal frameworks, administrative structures, and checks and balances in its payroll systems. The current joint efforts

under PBS 3, most notably through the establishment of the GRM, were seen to be critical steps toward strengthening this area. However, key challenges remain: the low capacity of *woreda* F&C institutions, the low level of recording and dissemination of disaggregated F&C and GRM data, the need to strengthen the capacity of the *woreda* councils' Budget and Finance Standing Committee, and a public that has a low-level understanding of F&C procedures.

36. There are two ways in which the ESPES will promote government actions to improve F&C outcomes. The first (DLI 10a) concerns the strengthening of the capacity of *woredas* to respond effectively to F&C complaints. Only 179 *woredas* currently have in place ethics officers who review and handle cases of F&C brought to their attention by their *woreda*'s citizens. The ESPES will disburse against the hiring of ethics officers and their training in proper techniques for complaint recording. Additional disbursements will be linked to proper reporting by these officers, including the disaggregation of their data by sector. At the end of the project period, it is expected that officers will be in place in all *woredas* in Ethiopia (about 1,100), and that all of the data they produce will be disaggregated by sector.

37. The second approach (DLI 10b) aims to improve the capacity of the members of *woreda* councils' Budget and Finance Standing Committees to oversee the transparency and accountability of *woredas*' budgets. Disbursements will be provided against the percentage of *woreda* committees' members who participate in an F&C training course. Following the training, disbursements will also be linked to the percentage of audits that committees follow up on. After three years of implementation, it is expected that 100 percent of the committee members will have been trained and 100 percent of the audit recommendations will have been followed up on.

Results and Data Activities

38. The production of reliable and timely data and the analysis of results are a fundamental aspect of ESPES support. Together they allow monitoring progress toward government and DP goals. At a more micro level, data analysis can explain why progress might be particularly strong in some regions or sectors and weaker in others. The goal of the project is to ensure that Ethiopia has adequate capacity for evidence-based analysis to promote the generation of quality development data and ensure high-quality verification of the PforR results.

39. Through DLI 10, the ESPES lays out specific actions to inform the government of both its M&E capacity by sector and its progress toward its development objectives. For the former, the ESPES will disburse against Data Quality Assessments (DQAs) that will be conducted by sector. Two DQAs have been undertaken, one for the education sector and one for the roads sector. Through the period of the ESPES, disbursements will be made against the DQAs being undertaken in four additional sectors: the ESPES will provide disbursements against the completion of two surveys and the revision of the methodology for a third. The Household Expenditure and Income Survey (HEIS) is expected to be completed in November 2015, and the DHS should be fielded a year later. The DHS will provide a high-quality means of verification for DLI 4. By 2018, the CSA should have revised the methodology of the Agricultural Census, which provides information from every non-pastoral *woreda* in the country.

Implementation Arrangements

40. This PforR will rely on the institutional structure and implementation arrangements developed for the PBS, including the joint donor management architecture. While IDA financing for block grants will switch to the PforR mode, other DPs will continue to use current arrangements for their funding to block grants: DFID and the EU disburse through a Bank-managed MDTF, and other partners—the AfDB, Austria Development Agency, and Italian Development Cooperation—disburse directly to the MoFED. The PforR implementation will also be monitored through the six-monthly by semi-annual JRIS missions, which will continue to be carried out, with affiliated development partners and federal, regional, and *woreda* governments.

41. The MoFED is the implementing agency for the PBS, and—given its overall responsibility for supporting financial flows from the federal to more decentralized levels and for ensuring that PFM systems work smoothly—it will continue in that role for the PforR. Within the MoFED, the COPCU is responsible for coordinating the daily PforR activities across the basic service ministries, government bodies, and subnational government entities and for ensuring compliance with joint legal agreements. Improvements in the COPCU’s staffing and management have demonstrated the government’s willingness to tackle implementation challenges. The head of the COPCU reports to the state minister of Development Planning and Economic Management within the MoFED and works closely with other state ministers and directorates as necessary. The COPCU’s specific responsibilities under the PforR include (a) directly supervising, reviewing, and monitoring the progress of all aspects of PforR implementation; (b) ensuring timely fulfillment of actions in the Implementation Support Plan; and (c) leading and coordinating the government’s involvement in the semiannual JRIS missions and other ongoing dialogues.

42. At the regional government level, the BoFEDs will continue to have responsibilities similar to MoFED’s at the federal level: (a) receiving, consolidating, and transferring financial and expenditure reports from the WoFED offices to the MoFED; (b) receiving *woreda*-level plans for the basic service sectors and assisting *woredas* in reconciling their plans with the agreed budget; (c) allocating budgets to *woredas* in line with the agreed fiscal transfer formulas; and (d) reviewing and consolidating results reports from *woreda* governments. In late 2011, all the BoFEDs created new positions for regional-level Channel One coordinators. Continuing this structure under the PforR will help to strengthen the overall system’s capacity for the ESPES implementation and follow-up.

43. At the local level, the WoFEDs and Urban Administration Offices of Finance have responsibilities similar to those of the BoFEDs. Their responsibilities also include (a) undertaking regular M&E and coordination with *woreda* sector offices; (b) undertaking operational tasks such as planning, supervision, and FM; (c) submitting to the BoFEDs consolidated monthly reports, including monthly reconciliation of expenditures; and (d) reporting each month on the actual use of block grants, including basic services subprogram resources at the local level and overall performance in relation to service delivery targets.

44. Councils at the regional, zonal, *woreda*, and *kebele* levels (a) provide general oversight of the subnational government institutions that are involved in the PforR program’s implementation; (b) review and approve annual development plans and budgets; and (c) facilitate information sharing and involve citizens in planning, budgeting, and managing the delivery of basic services.

45. A common donor coordination team, which PBS donors have agreed to continue, will support ESPES throughout its duration. The team is housed at the Bank’s Ethiopia country office, and its staff costs and activities are supported through donor contributions to an MDTF. Not an executing or implementing agency, the team serves the PBS donors’ group by facilitating and coordinating the smooth and efficient implementation of the PBS and ensuring the appropriate coordination of project activities and dialogue with other related national and sector programs. Going forward, the team will work to enhance safeguards support and sectoral linkages, along with supporting the overall JRIS process.

Results Chain

46. **Results Chain for Results Area 1: Ensuring Equitable Access to Basic Services.** The GoE uses a decentralized fiscal structure to meet its ambitious targets for basic service delivery at lower levels. The resources provided through the IGFTs flow to local levels using agreed allocation principles and finance recurrent expenditures, mainly in the form of salaries. Program analysis demonstrates that expenditures in recurrent basic service delivery (a) are effective in expanding basic service access, and (b) promote both geographic and wealth equality in basic service access. The Technical Assessment underscores the need to support staffing with qualified individuals who are responsive to the needs of vulnerable groups and women. The intervention logic supports the overall outcomes identified in the results chain. Block grant transfers have become increasingly pro-poor; the majority of the benefits of the spending accrue to households with lower incomes. In practice, block grants tend to preferentially benefit less well-off regions and *woredas*. In addition, block grant transfers appear to target less well-off *woredas* in all regions. These trends and findings are reflected in the Results Chain for Area 1.

Results Area 1: Ensuring equitable access to basic services

	<i>Activities</i>	<i>Intermediate results</i>	<i>Outcomes</i>
	<ul style="list-style-type: none"> • Per capita increase in budgeted block grant transfers to regions • Support to existing dialogue and analyses of IGFT rules and regulations within government • <i>Support to analytical work on the (a) unit cost of basic services; (b) the sustainability of the IGFTs; and (c) domestic resource mobilization</i> • <i>Targeted education, health and agricultural awareness campaign^a with the objective of increasing NER</i> 	<ul style="list-style-type: none"> • Increased staffing of qualified civil servants delivering basic services, including HEWs, teachers, and DAs (proportion of which are women) • <i>Increased understanding on the sustainability and poverty impact of the IGFTs</i> • Increased awareness about education among households in poor-poorly performing <i>woredas</i> 	<p>Increased service delivery-related outcomes, including:</p> <ul style="list-style-type: none"> • <u>Number of students in grades 5–8</u> • <u>Women receiving antenatal care</u> • Equitable geographic and wealth distribution in access to education and health services^b • <u>Women getting agricultural advisory services</u>

Note: **Bold:** DLI Indicator; Regular font: Program Action Plan; Underlined: Results Framework; *Italics:* Parallel Capacity Support Results Framework

^a In the bottom 20 percent of performing *woredas*.

^b See DLI 5 for a full description of the outcomes regarding increased equity in basic services access.

47. **Results Chain for Results Area 2: - Enhancing Citizens Engagement, Environmental and Social Capacity Management.** This results chain focuses on institutionalization of demand-side governance interventions and widening the scope of citizen engagement in service delivery. This is foreseen through the formalization of a road map for future SA programming, enhanced support for environmental and social management capacity, and capacity building of ethics staff. Under these interventions, linkages will be forged with financial transparency and grievance redress procedures.

Results Area 2: Enhancing Citizen Engagement and Environmental and Social Management Capacity

	<i>Activities</i>	<i>Intermediate results</i>	<i>Outcomes</i>
Fraud & corruption and grievance redress	<ul style="list-style-type: none"> • Undertake capacity gap assessment of REACCs in developing states • <i>Provide funds to increase number of ethics officers in woredas</i> • <i>Regions develop and adopt GRM structures and standardized regulations</i> • Assignment of woreda-level staff in GRM 	<ul style="list-style-type: none"> • Fraud and corruption complaints data disaggregated by sector and type of case • Ethics officers trained and deployed at local levels 	<ul style="list-style-type: none"> • <u>Increased number of woredas with an enhanced capacity to identify and prevent F&C activities</u> • <u>Improved ability of citizens to have their grievances heard and acted upon</u>
FTA	<ul style="list-style-type: none"> • <i>Use mass media to inform the public about complaint handling mechanism</i> • Provide technical assistance for pre-budget discussion and preparation of guidelines • Issue directive on conducting pre-budget discussion by woredas • <u>Post standardized service delivery template at basic service units</u> • Prepare training manual for woreda councils' standing committee members on the process of budgeting, expenditure oversight, and audit follow-up, and provide training 	<ul style="list-style-type: none"> • Increase in % of woredas conducting pre-budget discussions, including % of women participating • <u>More citizens aware of their woreda's budget</u> • More woreda councils' standing committees proactive in budgeting, expenditure oversight, and audit follow-up 	<ul style="list-style-type: none"> • <u>More citizens are providing feedback about the budget</u> • <u>Enhanced transparency through citizens' engagement</u> • <u>Greater incorporation of audit follow-up into woreda councils' activities</u>
Environmental and social issues	<ul style="list-style-type: none"> • Develop Environmental and Social Management System Operational Manual • Environmental and Social Management System Operational Manual customized by regions 	<ul style="list-style-type: none"> • Improved implementation of environmental and social management procedures at woreda level • <u>Training of woreda-level staff in ESMS</u> • Expansion of SA activities to more woredas/kebeles 	<ul style="list-style-type: none"> • <u>Greater awareness of and improved adherence to guidelines in the ESMS OM</u>

Social accountability	<ul style="list-style-type: none"> • <u>Roll-out plan for SA activities developed and adopted by steering committee</u> • <i>Develop guidelines for implementing FTA-SA linkages</i> 	<ul style="list-style-type: none"> • Citizens providing more feedback on service delivery • <u>Increased number of woredas implementing FTA-SA linkages</u> 	<ul style="list-style-type: none"> • <u>Increase in citizens satisfied with delivery of service</u> • <u>Enhanced accountability through citizen engagement</u>
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Note: Bold: DLI Indicator; Regular font: Program Action Plan; Underlined: Results Framework; Italics: Parallel Capacity Support Results Framework.

48. **Results Chain for Results Area 3: Deepening Fiduciary Aspects of Basic Service Delivery.** This results chain brings into focus the importance of building on existing fiduciary arrangements at the decentralized level, with an emphasis on capacity support, training, and timely follow-up. The results chain supports the rollout of innovative benchmarking and performance and training activities with the view to strengthening the ability of *woredas* to measure PFM performance and respond to fiduciary concerns. The elements covering F&C are included in Results Area 3.

Results Area 3: Deepening Fiduciary Aspects of Basic Service Delivery

	<i>Activities</i>	<i>Intermediate results</i>	<i>Outcomes</i>
PFM	<ul style="list-style-type: none"> • Undertake analysis of PFM capacity constraints at <i>woreda</i> level • <u>Develop and agree on OM for PFM Benchmarking Rating system</u> • <i>Continued rollout of new version of IBEX to woredas</i> 	<ul style="list-style-type: none"> • Distribute customized PFM Benchmarking systems to regions • Lowest-performing <i>woredas</i> identified and targeted for capacity-building efforts • <u><i>Increased audit coverage of the annual budget at woreda sectoral offices</i></u> 	<ul style="list-style-type: none"> • Benchmarking Rating System in operation, reporting on PFM performance at <i>woreda</i> level • Increased number of <i>woredas</i> with favorable audit findings
Procurement	<ul style="list-style-type: none"> • Assessment of regional procurement bottlenecks • <u>Development of customized procurement performance manuals, including performance indicators and formats</u> • <i>Provide training on procurement audit</i> 	<ul style="list-style-type: none"> • Commence data collection based on new formats • <i>Increased number of procurement audits carried out at woreda level</i> • <i>Improved capability of regional procurement bodies to undertake audits</i> 	<ul style="list-style-type: none"> • Function of regional procurement bodies strengthened

Note: Bold: DLI Indicator; Regular font: Program Action Plan; Underlined: Results Framework; Italics: Parallel Capacity Support Results Framework.

Results Chain for Results Area 4: Results and Data Quality Assurance. This results chain promotes data quality attainment and continued analytical support of service sectors.

Results Area 4: Ensuring Quality Data Access and Results

<i>Activities</i>	<i>Intermediate results</i>	<i>Outcomes</i>
<ul style="list-style-type: none"> • Important statistical surveys completed (HIES and DHS) • Implementation of EDQAF and data quality audit reports produced annually for a number of sectors • <i>TA provided to enhance CSA's and line ministries' capacity to use M&E systems and conduct verifications</i> 	<ul style="list-style-type: none"> • Increased access by public to development data • <u>Increased number of sectors with operational MIS and trained staff</u> • Improved development information and data for service delivery 	<ul style="list-style-type: none"> • Increased citizens' and stakeholders' use of development data for planning and policy- and decision-making • Increased use of development information by the public to improve effectiveness of service delivery

Note: **Bold:** DLI Indicator; Regular font: Program Action Plan; Underlined: Results Framework; *Italics:* Parallel Capacity Support Results Framework.

49. **To achieve the four results areas, the activities and results chain are designed to be executed through four main mechanisms: DLIs, results framework, PAP, and a parallel capacity support agenda.** Given the complexity of these mechanisms, emphasis will be placed on effective coordination measures to enhance coherence and synergies. To a large extent, to ensure this coherence the program will rely strongly on established institutional structures—the COPCU implementation unit and the new PBS Secretariat entity. It will also be important to ensure coordination with parallel programs of support; thus, the results of the ESPES will depend on effective implementation under PBS Subprogram B and ESAP. In this respect a range of measures will be set in place: (a) the program's semiannual supervision mission will be done concurrently with PBS's, and will be informed by ESAP implementation; (b) training on ESPES and parallel support measures will be provided to both the government implementation team and the donor harmonization team; (c) the ESPES team will be part of the design team for the future rollout of ESAP, including its bridging phase, to ensure consistency; and (d) a designated task team lead and supporting team will remain on the ground in Ethiopia to ensure high-level implementation support.

Annex 2: Results Framework Matrix

Program Development Objective: <i>to improve equitable access to basic services and strengthen accountability systems at the decentralized level</i>											
PDO-Level Results Indicators	Core	DLI/ DLR	Unit of Measure	Baseline	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection
					2015	2016	2017	2018			
Per capita increase in budgeted Federal Government block grant transfers to Regions, excluding Addis Ababa		X	ETB	588	641	699	761	-	Annual	MoFED	MoFED
Improved geographic equity in NER outcomes		X	%	NER in bottom 10% of <i>woredas</i> : 0.21	-	0.24	0.26	-	Annual	From the previous year's approved EMIS data.	World Bank
Improved geographic equity in Penta 3 outcomes		X	%	Penta3 coverage in bottom 10% of <i>woredas</i> : 44%	-	50	51.7	53.4	Annual	From the previous year's approved HMIS data.	World Bank
Increased women household heads receiving agricultural advisory services			%	14.6		15.6		16.6	Annual	Agricultural sample survey	CSA
Increased <i>woredas</i> screening projects for their environmental and social effects.			#	0 ¹¹		50	100	200	Annual	Regional Environmental and Land Administration Bureau	World Bank
Increased <i>woredas</i> conducting pre-budget discussions		X	Yes/no	%	-	15	-	-	Once	Administrative data	MoFED/ World Bank
PFM Benchmarking Rating system established in all regions		X	#	0	-	4 ¹²	11	11	Annual	OFAG	OFAG

¹¹ Though there are Environmental Protection and Land Administration offices in many *woredas* with some environmental and social screening practices, this indicator will measure the changes made after the development of the ESMS operational manual, training of staff and the screening of projects based on the manual.

¹² Two regions from Gambella, Somali, Dire Dawa, Benishangul-Gumuz, Harari, Afar and Addis Ababa, and two from Tigray, Oromia, Amhara, and SNNPR.

Intermediate Results Area 1: Ensuring equitable access to basic services											
Increases in total number of students enrolled (net) in grades 5-8, in all Regions, excluding Addis Ababa		X	#	51,721 (YoY increase 2012/13)	-	50,000	50,000	50,000	Annual	MoE Education Statistics Annual Abstract	CSA
Increased proportion of qualified female agricultural development agents (diploma level)		X	%	15	-	16	17	18	Annual	From MoA annual report	CSA
Increased number of health extension workers who have graduated with a Level 4 qualification		X	#	2,123	3,348	5,798	8,248	-	Annual	MoH Health and Health Related Annual Indicators Report	MoFED/MoH
Improved wealth equity in education and health service delivery outcomes, based on Net Attendance Rate and Penta 3 Vaccine indicators for the Bottom Wealth Quintile group.		X	%	NAR: bottom quintile: 62.1%	-	-	70	-	Once	DHS	MoH/EPHI/MoE/MoFED
				Penta3 for bottom quintile: 37%	-	-	39.5	-			
Pregnant women receiving at least one antenatal care visit	X		%	41.2			50		Once	DHS	MoH/EPHI/MoE/MoFED
Intermediate Results Area 2: Enhancing Citizen Engagement, Environmental and Social Management Capacity											
Assignment of ethics officers at <i>woreda</i> level		X	%	15	40	75	75	75	Annual	Administrative record of REACC	FEACC/MoFED
<i>woredas</i> in 6 regions have assigned staff/officers in GRM		X	%		50	70	90	-	Once	Administrative data	Donor Coordination Team
25% share of women participating in pre-budget discussion at <i>woreda</i> level		X	%		-	25	-	-	Once	Administrative data	MoFED/ World Bank
Expansion of Social Accountability activities in existing and into new <i>woredas</i>		X	# <i>woredas</i>	223	-	-	223, with expanded number of kebeles	300	Annual	MoFED and ESAP SC	CSA

Improved environmental and social management capacity at local level		X	# <i>woreda</i> based staff in four regions ¹³ trained on ESMS OM	0 ¹⁴	-		200		Annual	MEF Reports	MoFED/MEF
Intermediate Result Area 3: Deepening Fiduciary Aspects of Service Delivery											
Lowest-performing <i>woredas</i> based on PFM Benchmarking Rating are supported for FM reform		X	Yes/no	No	-	-	Yes	-	Once	OFAG/ORAG	World Bank
Oversight function of Regional procurement regulatory bodies has been improved		X	Specific region and sectors	0	-	Oromia, Amhara, SNNP, Tigray have commenced data collection	Oromia, Amhara, SNNP, Tigray reported in agriculture, education and health sectors	Oromia, Amhara, SNNP, Tigray, and 10% of their <i>woredas</i> reported in agriculture, education and health sectors	Annual	FPPAA	FPPAA submits document to MoFED verifying data
Strengthened capacity of <i>Woredas</i> to effectively respond to fraud and corruption complaints		X	%		40	-	75	-	Annual	Government reports	MoFED
Intermediate Results Area 4: Results and Data Quality Assurance											
HIES survey published		X	Yes/no	No	-	-		Yes-	Once	CSA reports	MoFED/ World Bank
DHS survey published		X	Yes/no	No	-	yes		-	Once	CSA reports	MoFED/ World Bank
Completion of Agricultural Census with revised methodology			Yes/no	No	-	-	-	Yes	Once	CSA reports	MoFED/ World Bank
Implementation of DQA recommendations for different sectors		X	#	0	2	-	3	-	Annual	CSA reports	MoFED/ World Bank

¹³ Two regions from Gambella, Somali, Dire Dawa, Benishangul-Gumuz, Harari, Afar and Addis Ababa, and two from Tigray, Oromia, Amhara, and SNNPR.

¹⁴ Although in many *woredas* there are Environmental Protection and Land Administration offices with some environmental and social screening practices, this indicator will measure the changes made after the development of the ESMS operational manual, training of staff, and screening of projects based on the manual.

Annex 3: Disbursement-linked Indicators, Disbursement Arrangements, and Verification Protocols

Disbursement Linked Indicator Matrix

	<i>Total Financing Allocated to DLI</i>	<i>As % of Total Financing Amount</i>	<i>DLI Baseline</i>	<i>Indicative timeline for DLI achievement</i>					
				<i>Nov. 1, 2015</i>	<i>May 1, 2016</i>	<i>Nov. 1, 2016</i>	<i>May 1, 2017</i>	<i>Nov. 1, 2017</i>	<i>May 1, 2018</i>
Results Area 1: Ensuring Equitable Access to Basic Services									
DLI 1: Per capita increase in budgeted Federal Government block grant transfers to Regions, excluding Addis Ababa	\$90,000,000	15	588ETB	641ETB		699ETB		761ETB	
Allocated amount:				\$30,000,000		\$30,000,000		\$30,000,000	
DLI 2: Increased proportion of qualified female agricultural development agents (diploma level)	\$30,000,000	5	15%		18%		19%		20%
Allocated amount:					\$10,000,000		\$10,000,000		\$10,000,000
DLI 3: Increased number of health extension workers who have graduated with a Level 4 qualification	\$30,000,000	5	2,123	3,348		5,798		8,248	
Allocated amount:				\$10,000,000		\$10,000,000		\$10,000,000	

DLI 4: Increases in total number of students enrolled (net) in grades 5-8, in all Regions, excluding Addis Ababa	\$60,000,000	10	51,721 (2012/2013)		50,000		50,000		50,000
Allocated amount:					\$20,000,000		\$20,000,000		\$20,000,000
DLI 5a: Improved geographic equity in education and health service delivery outcomes, based on Net Enrollment Rate and Penta 3 Vaccine indicators for the bottom 10% of Performing Woredas	\$60,000,000	10	NER (5-8) bottom 10% of performing <i>woredas</i> - 21% Penta3 bottom 10% of performing <i>woredas</i> - 44%	NER (5-8) bottom 10%: targeted awareness campaign undertaken	Penta3 bottom 10%: 50%	NER (5-8) bottom 10%: 24%	Penta3 bottom 10%: 51.7%		
Allocated amount:				\$20,000,000	\$15,000,000	\$15,000,000	\$10,000,000		
DLI 5b: Improved wealth equity in education and health service delivery outcomes, based on Net Attendance Rate and Penta 3 Vaccine indicators for the	\$30,000,000	5	NAR (1-8) bottom wealth quintile - 62.1% Penta3 coverage for bottom wealth quintile - 37%					NAR (1-8) bottom wealth quintile - 70%	Penta3 coverage bottom wealth quintile - 39.4%

Bottom Wealth Quintile group									
Allocated amount:								\$15,000,000	\$15,000,000
Results Area 2: Enhancing Citizen Engagement, Environmental and Social Management Capacity									
DLI 6: Improved environmental and social management capacity at <i>Woreda</i> level	\$50,000,000	8	No EMSC Operational Manual		An environmental and social management system operational manual has been developed by MOFED		200 <i>woreda</i> -based staff in 2 regional states (selected from Gambella, Somali, Diredawa, Benishangul Gumuz, Harari, and Afar), and 2 regional states (selected from Tigray, Oromia, Amhara and SNNP) have been trained in the environmental and social management system operational manual		Environmental and social management system operational manual has been customized in at least 4 of the following regional states (Gambella, Somali, Benishangul Gumuz, Afar, and SNNP)
Allocated amount:					\$15,000,000		\$20,000,000		\$15,000,000
DLI 7: Enhanced transparency and accountability through citizen engagement	\$80,000,000	13	FTA budget disclosure happening in all <i>woredas</i> , with informal pre-budget discussions	MoFED has issued a directive on <i>woredas</i> ' conducting pre-budget discussions	A road map for consolidating and scaling up social accountability has been validated and adopted by the Steering Committee	15% of <i>woredas</i> have conducted pre-budget discussions, with women constituting at least a 25% of such discussions	Rollout plan for social accountability has been prepared and is operational in 223 <i>woredas</i> (existing and new <i>kebeles</i>)	At least 80 % of <i>woredas</i> in six (6) Regions have assigned grievance redress staff/officers	The Roll-out plan for social accountability is operational in 300 <i>woredas</i> , of which 77 are new <i>woredas</i>

			during budget literacy training						
			Standard GRM structures in 4 Regions, including assigned staff at regional and <i>woreda</i> level						
			SA operational in 223 <i>woredas</i>						
Allocated amount:				\$20,000,000	\$20,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000

Results Area 3: Deepening Fiduciary Aspects of Basic Service Delivery

DLI 8: Establishment of a government system for benchmarking <i>Woreda</i> public financial management (“PFM”) performance (the “PFM Benchmarking Rating”)	\$42,000,000	7	n/a		Operational Guideline for the PFM <i>Woreda</i> Benchmarking Rating developed by MoFED	Based on the OG, the <i>Woreda</i> PFM Benchmarking Rating has been rolled out to all Regions.	An evaluation of the PFM Benchmarking rating system is completed	MOFED supports the lowest-performing <i>woredas</i> for capacity building, based on a completed evaluation of the <i>Woreda</i> PFM Benchmarking Rating	
Allocated amount:					\$10,500,000	\$10,500,000	\$10,500,000	\$10,500,000	
DLI 9: Oversight functions of regional procurement regulatory bodies has been improved	\$20,000,000	3	n/a		Procurement performance monitoring guideline (including performance indicators and	Indicator-related data collection based on the customized PFM Guidelines, has commenced based on new	Each of Oromia, Amhara, SNNP, and Tigray Regions has reported on their performance in the agriculture,	Procurement audits have been carried out on at least 25% (cumulative) of <i>woredas</i> in each of Oromia,	Each of Oromia, Amhara, SNNP, and Tigray regions has reported on their performance in the agriculture,

					data collection formats and templates), developed by MOFED, is customized by the procurement regulatory bodies for each of Oromia, Amhara, SNNP, and Tigray Regions	formats in each of Oromia, Amhara, SNNP, and Tigray Regions	health, and education sectors at Regional level, based on the procurement performance indicators	Amhara, SNNP, and Tigray Regions	health, and education sectors at bureau level and in 10% of <i>woredas</i> based on the procurement performance indicators
Allocated amount:					\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000
DLI 10a: Strengthened capacity of <i>Woredas</i> to effectively respond to fraud and corruption complaints	\$30,000,000	5	Ethics officers are assigned in 179 <i>Woredas</i> in 2 regions Data not disaggregated by sector or case	Ethics officers have been assigned in at least 40% of WoFEDs		Ethics officers have been assigned in at least 75% of WoFEDs		Fraud and corruption complaints registered by WOFED are recorded in accordance with REACC/FEACC complaint registration format (including disaggregated by sector and type of case) in 75% of <i>woredas</i>	
Allocated amount:				\$10,000,000		\$10,000,000		\$010,000,000	
DLI 10b: Strengthened capacity of <i>Woreda</i> Council Finance and Budget Standing Committee members to provide effective oversight,	\$18,000,000	3	Oversight capacity is weak, including audit follow-up		MoFED prepares a training manual for <i>woreda</i> councils on the process of budgeting, expenditure oversight, and audit follow-up		25% of <i>woredas</i> , have conducted, through their respective BOFEDs, training for their Finance and Budget Standing Committee of their respective		25% of <i>woredas</i> , have conducted, through their respective BOFEDs, training for their Finance and Budget Standing Committee of their respective

transparency and accountability for budgets for budgets							Woreda Councils on the process of budgeting, expenditure oversight, and audit follow-up		Woreda Councils on the process of budgeting, expenditure oversight, and audit follow-up
Allocated amount:					\$6,000,000		\$6,000,000		\$6,000,000
Results 4: Ensuring Quality Data Access and Results									
DLI 11: Improved development information and data for service delivery	\$60,000,000	10	n/a		Data quality assessment has been implemented in one of four basic service sectors, focusing more on gender-related indicators	Data quality assessment has been implemented in two of four basic service sectors (cumulative)	DHS has been , carried out and the results published	Data quality assessment has been implemented in three of four basic service sectors (cumulative)	Household Income Consumption and Expenditure Survey has been published, with gender disaggregated data.
Allocated amount:					\$12,000,000	\$12,000,000	\$12,000,000	\$12,000,000	\$12,000,000
Total Financing Allocated:	\$600,000,000			\$75,000,000	\$102,500,000	\$102,500,000	\$97,500,000	\$120,500,000	\$102,000,000

DLI Verification Protocol Table

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/ Agency	Verification Entity	Procedure
1	Per capita increase in budgeted Federal Government block grant transfers to Regions, excluding Addis Ababa	The budget line for federal block grant transfers to regions divided by the population of the country, excluding that of Addis Ababa. Assuming a 2.3% population growth per year based on the CSA estimates, the baseline population is 86,684,000 (FY2015). Forecast population figures are 88,732,000 (FY2016), 90,795,000 (FY2017), and 92,858,000 (FY2018). This is a strong measure of performance, given the track record of meeting and in some cases exceeding budget commitments in block grants (See Annex 1 for more information)	Yes. Above 31%, a percentage increase will lead to a proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year.	MoFED (Budget, as approved by parliament) CSA (Population)	OFAG	The OFAG submits a document to the MoFED, verifying data before each joint government/Bank semi-annual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.
2	Increased proportion of qualified female agricultural development agents (diploma level)	Agricultural DAs trained to a minimum qualification according to Ministry of Agriculture (diploma level) from an accredited Agricultural Transformation	Yes. Above 31%, a percentage increase will lead to a proportionate percentage increase in payment. There will be no disbursement for an	Annual Statistics Report Data published in October Previous fiscal year data	CSA	The CSA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/ Agency	Verification Entity	Procedure
		Vocational Training Center. A 1% real increase based on preceding target is required for achievement.	achievement below 31% of the target for the year.			consolidated DLI verification report as part of each semiannual government/Bank review.
3	Increased number of health extension workers who have graduated with a level 4 qualification	To qualify for level 4, HEWs are expected to have two years of practical experience, get formal training for an additional year	Yes. Above 31%, a percentage increase will lead to a proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year.	MoH - Health and Health-related Annual Indicators Report Data published in October Previous fiscal year data	CSA	The CSA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.
4	Increases in total number of students enrolled (net) in grades 5-8, in all Regions, excluding Addis Ababa	This DLI measures the annual growth in the NER—the number of students of the appropriate age enrolled in grades 5–8 divided by the population of that age group—for the entire country, excluding Addis Ababa. In 2013/14, the total NER (grade 5–8) was 4,127,078; this is an	Yes. Above 31%, a percentage increase will lead to proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year.	MOE - Education Statistics Annual Abstract	CSA	The CSA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/ Agency	Verification Entity	Procedure
		increase from 3,979,791 in 2012/13 .				
5a	Improved geographic equity in education and health service delivery outcomes, based on Net Enrollment Rate and Penta 3 Vaccine indicators for the bottom 10% of Performing <i>Woredas</i>	<p>Education:</p> <p>November 2015: The MOE will develop an information campaign to promote increased NER (grades 5–8) in the poorly performing 10% of <i>woredas</i>.</p> <p>November 2016 and 2017: These DLIs focus on increasing the NER (grades 5–8) in the poorly performing 20% of <i>woredas</i>, excluding Addis Ababa. The bottom 10% is based on a consistent sample using 2007/08 data agreed with the MOE to measure temporal changes. See Technical Assessment Annex 1 for list of <i>woredas</i>.</p> <p>Health:</p> <p>May 2016, May 2017 and May 2018:</p>	<p>Nov 2015. Not scalable: pass or fail.</p> <p>Nov 2016 and Nov 2017 are scalable. Above 31%, a percentage increase will lead to a proportionate percentage increase in payment.</p> <p>There will be no disbursement for an achievement below 31% of the target for the year.</p> <p>May 2016, May 2017, and May 2018: The DLIs are scalable. Above 31%, a percentage increase will lead to a proportionate percentage increase in payment.</p>	<p>Education:</p> <p>This indicator relies on the EMIS data and <i>woreda</i> population figures. EMIS data is the count of students in grades 5-8 by <i>woreda</i> and will be available one year after the end of the Ethiopian fiscal year.</p> <p>The population figures and their growth rates for the requisite <i>woredas</i> have been agreed with the MOE.</p> <p>Health:</p> <p>This indicator relies on HMIS data. It is made available one year after the</p>	CSA	The CSA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/ Agency	Verification Entity	Procedure
		<p>These DLRs measure the coverage of Penta3 vaccination rates (for children under the age of 1) for the poorest-performing 10% of <i>woredas</i>, excluding Addis Ababa.</p> <p>The bottom 10% is based on a consistent sample using 2008/09 data agreed with the MOH to measure temporal changes. See Technical Assessment Annex 1 for list of <i>woredas</i>.</p>		end of the Ethiopian fiscal year.		
5b	Improved wealth equity in education and health service delivery outcomes, based on Net Attendance Rate and Penta 3 Vaccine indicators for the Bottom Wealth Quintile group	<p>Education:</p> <p>The DLI measures the increase in NAR for grades 1–8 among the bottom wealth quintile (20%). The NAR is based on children aged 11–14 years in the poorest quintile as calculated from DHS data.</p> <p>Health:</p> <p>The DLI measures the increase in the Penta3</p>	<p>Yes. Above 31%, a percentage increase will lead to a proportionate percentage increase in payment.</p> <p>There will be no disbursement for an achievement below 31% of the target for the year.</p>	<p>For Education: DHS 2016/17 will be used</p> <p>For Health: National Immunization Survey</p>	<p>CSA (Education)</p> <p>WHO (Health)</p>	The verification agency (CSA or WHO) submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.

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		vaccination rate among the bottom wealth quintile (20%). The Penta3 vaccination rate is based on children aged 12–23 months in the poorest quintile as calculated from DHS data.				
6	Improved environmental and social management capacity at <i>Woreda</i> level	<p>The DLI will be deemed to have been met if (a) the <i>woreda</i> Operational Manual for environmental and social management capacity is adopted; (b) trained ESIA personnel are in place; and (c) the regional ESMC manual has been adopted in four regions.</p> <p>The manual must be cleared by MOFED and subject to World Bank agreement</p>	<p>DLI for May 2016 is not scalable: pass or fail</p> <p>The May 2017 and May 2018 DLIs are scalable:</p> <p>May 2017 - Disbursement will be made in proportion to the number of <i>woreda</i>-based staff trained in ESMC.</p> <p>May 2018 - Disbursement will be made in proportion to the number of regions that adopted the ESMS OM.</p>	MoFED	CSA	<p>All relevant materials will be published either online or as a soft copy.</p> <p>The CSA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.</p>

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7	Enhanced transparency and accountability through citizen engagement	Citizen engagement is under implementation with varied progress in terms of scale/coverage and depth under the FTA, GRM, and SA in different regions and <i>woredas</i> . The objective of the DLI will be to sustain citizen engagement by deepening, scaling up, and institutionalizing ongoing efforts in the medium and long term. For full information on each component, refer to Annex 1 in PAD. Detailed definitions are provided on SA as follows:	The indicators of achievement are scalable for November 2016, May 2017, November 2017, and November 2018. The indicators of achievement are not scalable for November 2015 and May 2016.			
7a		The road map for SA is a document that details key priorities and strategic actions that the government, donors, and civil society organizations, who are the members of the ESAP SC, will agree upon for the medium term. The SC is an oversight organ for the ESAP agreed between stakeholders at program	<p>May 2017: Disbursement will be made in proportion to the number of <i>woredas</i> in which the rollout plan for SA became operational. The minimum number of <i>woredas</i> will be 75 (including existing and new <i>kebeles</i>) and the maximum will be 223.</p> <p>May 2018: Disbursement will be made in proportion to the number of <i>woredas</i> in which the rollout plan for SA became operational.</p>	MoFED and affiliated institutions	CSA	<p>Final verification will involve validation by the ESAP SC that meets quarterly following a review by the Social Accountability Technical Committee (SA-TC). The ESAP SC will provide information to the CSA.</p> <p>The CSA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the</p>

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		<p>inception. The rollout plan is a version of the road map that contains implementable actions as a detail of each priority strategic action. Both documents are working documents that provide evidence of readiness for implementation of priorities and strategic actions but that remain living documents that evolve to reflect dialogue and lessons from ongoing implementation. The rollout plan is regarded as operational if its implementable aspects agreed by stakeholders for a <i>woreda</i> are under implementation as agreed.</p> <p>FTA: During the last five years, budget and expenditure information has been disclosed in more than 90% of <i>woredas</i>. Service delivery information has been disclosed in more than 50% of service delivery units</p>				MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.

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7b		for citizens at the local administration level. Budget literacy training has also been provided for more than half a million citizens. The DLI for pre-budget discussion will help to translate these efforts to the level of practically engaging citizens in the budget process and helping them to influence budget decision-making and monitor execution at the local levels. It will create a discussion forum between citizens and their representatives and the local officials. MoFED has issued a directive that helps to conduct the pre-budget discussions. This DLI expects 15% of <i>woredas</i> to conduct pre-budget discussions by November 2016, with participants including at least 25% women. This also has the potential to link social accountability and FTA activities.	November 2016: Disbursement will be made in proportion to the percentage of <i>woredas</i> in which pre budget discussions were conducted with at least 25% women participants.	MoFED and affiliated institutions	CSA	The CSA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.

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		GRM: There are two major GRM structures in Ethiopia: the Ethiopian Institution of the Ombudsman, a federal entity with six branch offices in regions, and the GRM structure that has been established by the regional states, accountable to the chief administrator at the regional, zonal, and <i>woreda</i> levels. This DLI refers to the second structure. Currently four regions have such GRM offices at the regional and <i>woreda</i> levels with clear work and reporting procedures. It is expected that this trend will continue and by November 2017 two more regions/city administrations will have assigned GRM staff or officers at the regional level and in at least 90% of their <i>woredas</i> with clear and standardized work and reporting procedures.				
7c			November 2017: Disbursement will be made in proportion to the total percentage of <i>woredas</i> that have assigned staffs/officers in grievance redress mechanisms.	MoFED and affiliated institutions	CSA	The CSA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.

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		This helps the GRM system be accessible at the grassroots level and enables citizens to access the service				
8	Establishment of a government system for benchmarking <i>woreda</i> public financial management performance (the “PFM Benchmarking Rating”)	<p>By May 1, 2016: Operational Manual for the <i>woreda</i> PFM benchmarking rating developed. Manual is developed by the MoFED and is agreed with the Bank</p> <p>By November 1, 2016: Based on the Operational Manual, the <i>woreda</i> PFM benchmarking rating has been rolled out in all regions</p> <p>By May 1, 2017: The <i>woreda</i> PFM benchmarking rating has been implemented in the seven remaining regions/city administrations.</p> <p>By May 1, 2017 an evaluation of the <i>woreda</i> PFM Benchmarking Rating system is completed.</p>	<p>No - Indicator for May 2016 is not scalable.</p> <p>November 2016: Indicators are scalable</p> <p>Yes - Indicator for May 2017 is scalable</p> <p>Yes - Indicator for November 2017 is scalable as follows: disbursement is a proportion of the number of lowest-performing <i>woredas</i> targeted for FM reform. This is subject to a minimum disbursement of 20%, that is, only 20% of lowest-performing <i>woredas</i> have been targeted for capacity building.</p>	MoFED	OFAG	<p>The OFAG verifies the completion of the Operational Manual.</p> <p>DLIs for November 2016 and May 2017: the OFAG (with the support of the ORAGs, if needed) will ensure that the implementation or rollout of the <i>woreda</i> PFM benchmarking rating has been performed in line with the Operational Manual. It will also review whether the results are published on the MoFED website. The OFAG will issue a report on the result of the verification to the MoFED before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.</p>

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		By November 1, 2017: MoFED/BoFED provides training for PFM capacity building to 20% of the <i>woreda</i> finance and procurement staff in the 20% lowest performing <i>woredas</i> in each Region, as assessed based on the <i>woreda</i> PFM Benchmarking Rating. This will be verified on a sample basis according to standard audit practices .				The OFAG can perform this as part of the continuous audit report process, requiring a revision of the existing TOR or development of a separate TOR. For actions of November 2017: The OFAG verifies the number of lowest-performing <i>woredas</i> that have been targeted for FM reform.
9	Oversight function of Regional procurement regulatory bodies has been improved	Regional regulatory bodies are legally responsible for procurement oversight in the <i>woredas</i> , and the project will depend on these bodies for procurement oversight. One of their major responsibilities is to monitor procurement activities and report on performance. None of the regional regulatory bodies has yet initiated this core activity. Starting this function is	Yes, all indicators of achievement are scalable: May 2016, November 2016, May 2017, and May 2018 May 2016 and November 2016: payment will be disbursed in proportion to the number of regions in which the result is achieved.	The four regions' procurement regulatory bodies prepare report.	FPPPAA	The FPPPAA submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.

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		critical and catalytic for strengthening the procurement system at a decentralized level. Therefore, this DLI addresses and incentivizes this particular function. The DLI includes the development of a procurement manual, customized to regions and including procurement performance indicators with data collection formats. It also includes a deliverable related to audit coverage and reporting that will help ensure the fiduciary oversight for the project.				
10a	Strengthened capacity of <i>woredas</i> to effectively respond to fraud and corruption complaints	As most of the resources at the <i>woreda</i> level are managed by the WoFED, this DLI seeks to ensure that all <i>woredas</i> designate officers to respond to F&C issues and to compile and disaggregate data on complaints related to the program.	Yes, all indicators of achievement are scalable. November 2015, November 2016, and November 2017: disbursement will be made in proportion to the percentage of WoFEDs in which ethics officers are assigned.	Administrative record for the manpower and complaint data of the REACC	FEACC	The manpower data collected from the WoFED will be sent to the BoFED and REACC simultaneously. The MoFED gets the data through the BoFED. This will be verified by the FEACC. The FEACC submits a document to the MoFED, verifying data before each

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						joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.
10b	Strengthened capacity of Woreda Council Finance and Budget Standing Committee members to provide effective oversight, transparency and accountability for budgets	This DLI seeks to strengthen the capacity of the <i>woreda</i> councils' Finance and Budget Standing Committee members to provide effective oversight, including follow-up of audit recommendations.	Indicator for May 2016 is not scalable: pass or fail Indicators for May 2017 and May 2018 Disbursement will be made in proportion to the percentage of <i>woredas</i> in which council standing committee members are trained.	BoFED's report on the number of people trained	OFAG	Data on the number of <i>woredas</i> whose Finance and Budget Standing Committee members are trained will be collected from the WoFED, sent to the BoFED, and then submitted to the OFAG. The OFAG submits a document to the MoFED, verifying data before each joint government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.
11	Improved development information and data for service delivery	Development and implementation of flagship sector surveys and data quality assessments necessary for full verification of	No	CSA, MOA, MOH	NPC	The National Planning Commission confirms completion of each deliverable by submitting a document to the MoFED before each joint

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		results in basic service delivery. This includes the Household Income and Expenditure Survey, DHS, and implementation of data quality assessments by the CSA in all three core sectors.				government/Bank semiannual review. The verified information is then submitted by the MoFED to the Bank in a consolidated DLI verification report as part of each semiannual government/Bank review.

Bank Disbursement Table

#	DLI	Bank Financing Allocated to the DLI (\$ million)	Of which Financing Available for		Deadline for DLI Achievement ¹	Minimum DLI Value to be Achieved to Trigger Disbursements of Bank Financing ²	Maximum DLI Values Expected to be Achieved for Bank Disbursements Purposes ³	Determination of Financing Amount to be Disbursed Against Achieved and Verified DLI Value(s) ⁴
			Prior Results	Advances				
1	Per capita increase in budgeted Federal Government block grant transfers to Regions, excluding Addis Ababa	90	30	0	May 2018	November 2015: ETB 604 November 2016: ETB 659 November 2017: ETB 718	November 2015: ETB 641 November 2016: ETB 699 November 2017: ETB 761	For all DLIs: Above 31%, a percentage increase will lead to a proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value. <i>Payment x = [(Achieved Result – Baseline) ÷ (Target – Baseline)] × allocated amount</i>
2	Increased proportion of qualified female agricultural development agents (diploma level)	30	0	0	May 2018	May 2016: 15.93 May 2017: 18.31 May 2018: 19.31	May 2016: 18% May 2017: 19% May 2018: 20%	For all DLIs: Above 31%, a percentage increase will lead to a proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value. <i>Payment x = [(Achieved Result – Baseline) ÷ (Target –</i>

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			Prior Results	Advances				
								<i>Baseline)] × allocated amount</i>
3	Increased number of health extension workers who have graduated with a Level 4 qualification	30	0	10	May 2018	November 2015: 2,503 November 2016: 4,108 November 2017: 6,558	November 2015: 3,348 November 2016: 5,798 November 2017: 8,248	For all DLIs: Above 31%, a percentage increase will lead to a proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value. <i>Payment x = [(Achieved Result – Baseline) ÷ (Target – Baseline)] × allocated amount</i>
4	Increases in total number of students enrolled (net) in grades 5-8, in all Regions, excluding Addis Ababa,	60	0	0	May 2018	May 2016: 15,500 May 2017: 15,500 May 2018: 15,500	May 2016: 50,000 May 2017: 50,000 May 2018: 50,000	For all DLIs: Above 31%, a percentage increase will lead to a proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value. <i>Payment x = [(Achieved Result – Baseline) ÷ (Target –</i>

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			Prior Results	Advances				
								<i>Baseline)] × allocated amount</i>
5a	Improved geographic equity in education and health service delivery outcomes, based on Net Enrollment Rate and Penta 3 Vaccine indicators for the bottom 10% of Performing Woredas	60	0	20	May 2018	November 2015: Targeted education campaign is completed in target <i>woredas</i> May 2016: 45.86% November 2016: 21.93% May 2017: 50.53%	November 2015: Targeted education campaign is completed in target <i>woredas</i> May 2016: 50% November 2016: 24% May 2017: 51.7%	November 2015 DLI: pass/fail For other DLIs: Above 31%, a percentage increase will lead to a proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value. <i>Payment x = [(Achieved Result – Baseline) ÷ (Target – Baseline)] × allocated amount</i>
5b	Improved geographic equity in education and health service delivery outcomes, based on Net Enrollment Rate and Penta 3 Vaccine	30	0	0	May 2018	November 2017: 64.55% May 2018: 37.74%	November 2017: 70% May 2018: 39.4%	For all DLIs: Above 31%, a percentage increase will lead to proportionate percentage increase in payment. There will be no disbursement for an achievement below 31% of the target for the year. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value.

#	DLI	Bank Financing Allocated to the DLI (\$ million)	Of which Financing Available for		Deadline for DLI Achievement ¹	Minimum DLI Value to be Achieved to Trigger Disbursements of Bank Financing ²	Maximum DLI Values Expected to be Achieved for Bank Disbursements Purposes ³	Determination of Financing Amount to be Disbursed Against Achieved and Verified DLI Value(s) ⁴
			Prior Results	Advances				
	indicators for the bottom 10% of Performing <i>woredas</i>							$Payment\ x = [(Achieved\ Result - Baseline) \div (Target - Baseline)] \times allocated\ amount$
6	Improved environmental and social management capacity at <i>woreda</i> level	50	0	0	May 2018	May 2016: ESMC Operational Manual adopted May 2017: 50 staff May 2018: 2 regions	May 2016: ESMC Operational Manual adopted May 2017: 200 staff May 2018: 4 regions	May 2016: pass/fail May 2017: Disbursement will be made as a proportion of the number of staff trained. May 2018: Disbursement will be made in proportion to the number of regions that adopted the ESMC OM. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value. $Payment\ x = [(Achieved\ Result - Baseline) \div (Target - Baseline)] \times allocated\ amount$
7	Enhanced transparency and accountability through citizen engagement	60	0	20	November 2018	November 2015: Directive on pre-budget discussion issued by the MoFED May 2016: Roadmap for	November 2015: Directive on pre-budget discussion issued by the MoFED May 2016: Roadmap for consolidation and	For November 2015 and May 2016: pass/fail DLIs for November 2016, May 2017, November 2017, and November 2018 are scalable as follows:

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			Prior Results	Advances				
						<p>consolidation and scaling up of SA validated and adopted by the SC</p> <p>November 2016: 5%</p> <p>May 2017: 75 <i>woredas</i>, including existing and new <i>kebeles</i></p> <p>November 2017: 2 regions</p> <p>May 2018: 250 <i>woredas</i>, including 40 new <i>woredas</i></p>	<p>scaling up of SA validated and adopted by the SC</p> <p>November 2016: 15%</p> <p>May 2017: 223 <i>woredas</i></p> <p>November 2017: 6 regions</p> <p>May 2018: 300 <i>woredas</i>, including 75 new <i>woredas</i></p>	<p>November 2016 - Disbursement will be made in proportion to the percentage of <i>woredas</i> in which pre-budget discussions were conducted with at least 25% women participants. Minimum percentage of <i>woredas</i></p> <p>May 2017 - Disbursement will be made in proportion to the number of <i>woredas</i> in which the rollout plan for SA became operational.</p> <p>November 2017 - Disbursement will be made in proportion to the number of regions that have GRM structures and standard regulation.</p> <p>May 2018 - Disbursement will be made in proportion to the number of <i>woredas</i> in which the rollout plan for SA became operational.</p> <p>The proportionate payment will be disbursed following</p>

#	DLI	Bank Financing Allocated to the DLI (\$ million)	Of which Financing Available for		Deadline for DLI Achievement ¹	Minimum DLI Value to be Achieved to Trigger Disbursements of Bank Financing ²	Maximum DLI Values Expected to be Achieved for Bank Disbursements Purposes ³	Determination of Financing Amount to be Disbursed Against Achieved and Verified DLI Value(s) ⁴
			Prior Results	Advances				
								the formula below, subject to maximum DLI value. <i>Payment x = [(Achieved Result – Baseline) ÷ (Target – Baseline)] × allocated amount</i>
8	Establishment of a government system for benchmarking <i>woreda</i> public financial management (“PFM”) performance (the “PFM Benchmarking Rating”)	42	0	0	May 2018	May 2016: Operational Guideline developed and agreed with the Bank November 2016: Rolled out to 3 regions May 2017: Evaluation is complete November 2017: Poorest-performing 20% of the <i>woredas</i>	May 2016: Operational Guideline developed and agreed with the Bank November 2017: Rolled out to all regions May 2017: Evaluation is complete November 2017: 100% of the <i>woredas</i>	May 2016: pass/fail November 2016: Indicators are scalable as follows: Minimum roll out is 3 regions May 2017: Pass/Fail November 2017: Disbursement will be made as a proportion of the number of low-performing <i>woredas</i> that have been targeted for FM reform.
9	Oversight function of Regional	20	0	0	November 2018	May 2016: Procurement performance	May 2016: Procurement performance	May 2016: pass/fail

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			Prior Results	Advances				
	procurement regulatory bodies has been improved					<p>monitoring manual that includes performance indicators and formats developed.</p> <p>November 2016: One region</p> <p>May 2017: One region in three sectors or two regions in two sectors</p> <p>November 2017: One region</p> <p>May 2018: One region</p>	<p>monitoring manual that includes performance indicators and formats developed.</p> <p>November 2016: Four regions</p> <p>May 2017: Four regions in three sectors</p> <p>November 2017: Four regions</p> <p>May 2018: Four regions in three sectors</p> <p>May 2018: Four regions</p>	<p>November 2016 and November 2018: Payment will be disbursed in proportion to the number of regions in which the result is achieved.</p> <p>May 2017: An achievement of the result in one region in all three sectors or two regions in two sectors will result in 25% disbursement. An achievement of the result in two regions in all three sectors or three regions in two sectors will result in 50% disbursement. An achievement of the result in three regions in all three sectors or in four regions in two sectors will result in 75% disbursement</p>
10a	Strengthened capacity of <i>woredas</i> to effectively respond to fraud and corruption complaints	50	0	10	November 2018	<p>November 2015: 28%</p> <p>November 2016: 51%</p> <p>November 2017: 28%</p>	<p>November 2015: 40%</p> <p>November 2016: 75%</p> <p>November 2017: 90%</p>	<p>November 2015, November 2016, and November 2017: Payment will be made in proportion to the percentage of <i>woredas</i> in which the result is achieved. No payment will be made for results achieved below 28% for November 2015, 51 %</p>

#	DLI	Bank Financing Allocated to the DLI (\$ million)	Of which Financing Available for		Deadline for DLI Achievement ¹	Minimum DLI Value to be Achieved to Trigger Disbursements of Bank Financing ²	Maximum DLI Values Expected to be Achieved for Bank Disbursements Purposes ³	Determination of Financing Amount to be Disbursed Against Achieved and Verified DLI Value(s) ⁴
			Prior Results	Advances				
								for November 2016, and 28% for November 2017. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value. <i>Payment x = [(Achieved Result – Baseline) ÷ (Target – Baseline)] × allocated amount</i>
10b	Strengthened capacity of Woreda Council Finance and Budget Standing Committee members to provide effective oversight, transparency and accountability for budgets	18	0	0	November 2018	May 2016: pass/fail May 2017: 8% May 2018: 36%	May 2016: pass/fail May 2017:25% May 2018:75%	May 2016: pass/fail May 2017 and May 2018: Disbursement will be made in proportion to the percentage of <i>woredas</i> in which council standing committee members are trained. No payment will be made for results achieved below 8% for May 2017 and 36% for May 2018. The proportionate payment will be disbursed following the formula below, subject to maximum DLI value. <i>Payment x = [(Achieved Result –</i>

#	DLI	Bank Financing Allocated to the DLI (\$ million)	Of which Financing Available for		Deadline for DLI Achievement ¹	Minimum DLI Value to be Achieved to Trigger Disbursements of Bank Financing ²	Maximum DLI Values Expected to be Achieved for Bank Disbursements Purposes ³	Determination of Financing Amount to be Disbursed Against Achieved and Verified DLI Value(s) ⁴
			Prior Results	Advances				
								$\text{Baseline}) \div (\text{Target} - \text{Baseline})] \times \text{allocated amount}$
11	Improved development information and data for service delivery	60	0	0	November 2018	<p>May 2016 :DQA in 1 of 4 basic service sectors implemented</p> <p>November 2016: DQA in 2 of 4 basic service sectors (cumulative) implemented</p> <p>May 2017: DHS published</p> <p>November 2017: DQA in 3 of 4 basic service sectors (cumulative) implemented</p> <p>May 2018: Household Consumption and Expenditure Survey published</p>	<p>May 2016 :DQA in 1 of 4 basic service sectors implemented</p> <p>November 2016: DQA in 2 of 4 basic service sectors (cumulative) implemented</p> <p>May 2017: DHS published</p> <p>November 2017: DQA in 3 of 4 basic service sectors (cumulative) implemented</p> <p>May 2018: Household Consumption and Expenditure Survey published</p>	DLIs not scalable: pass/fail

Annex 4: Technical Assessment (Summary)

I. Program Description

A. Description of the Government Program

1. It has been a little over a decade since Ethiopia instituted fiscal decentralization in the lowest tiers of its government. A large part of this decentralization involves the transfer of funds from the treasury to the regions and then on to the *woreda*-level (district) governments. These IGFTs, also known as block grants, are embedded in the constitution and commit the government to maintain the integrity and capacity of decentralized administrative responsibility. Because they are centered on *woredas*, this decentralized economic governance system provides the essential platform for service delivery necessary for Ethiopia to reach its development targets.

2. The IGFTs are first disbursed to regions and in turn the regions allocate their own transfers to local governments. Within *woredas*, these transfers support expenditures for administrative, operational, and to some extent capital activities for the *woredas*, including for service delivery units such as primary schools, primary health posts, and farmer training centers.

3. The size of these transfers is large and growing. Over the past ten years, block grant allocations have grown from around ETB 7 billion in 2005/06 to more than ETB 51 billion in 2014/15. This implies an annual average growth rate of about 25 percent. In real terms, their value has increased by almost three-quarters (Table 1).

Table 1: Growth in Block Grant Transfers to Regional Governments (ETB, billions)

	2005/0 6	2006/0 7	2007/0 8	2008/0 9	2009/1 0	2010/1 1	2011/1 2	2012/1 3	2013/1 4	2014/1 5
Nominal	7.1	9.3	13.5	16.6	19.6	25.5	30.0	35.6	42.5	51.4
Real	22.2	25.4	29.3	26.3	30.2	33.4	29.8	30.6	33.8	37.8
% GoE Expenditure	32.4	34.7	39.0	40.3	36.9	37.7	36.6	39.9	39.0	37.4

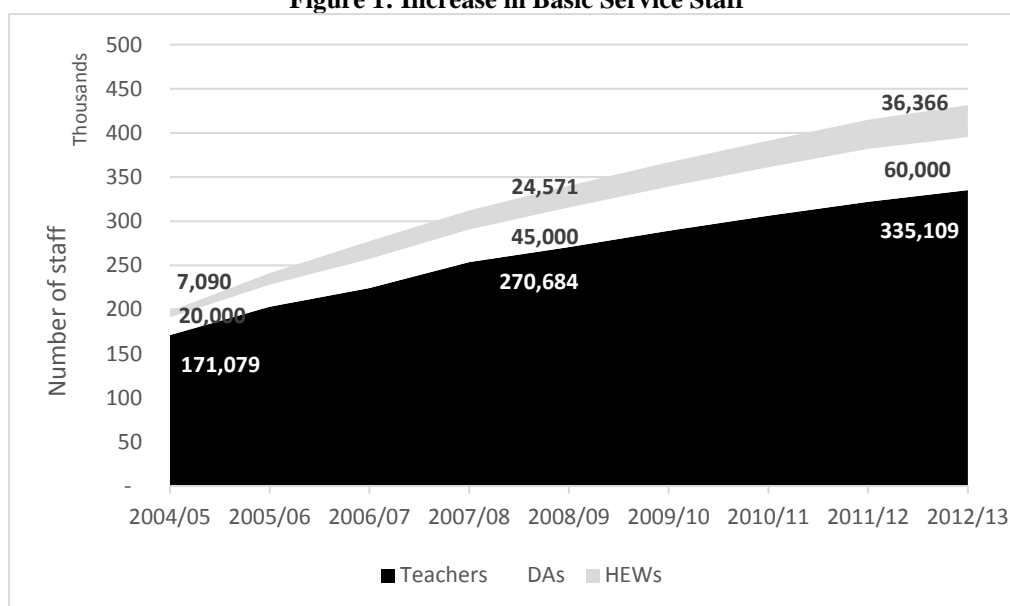
Source: PBS Secretariat

Note: Percentage of GoE expenditure is the percentage of total of national government spending

4. The GoE uses this decentralized fiscal structure to meet its ambitious targets for basic service delivery at lower levels. This has led to large increases in the relevant types of staff financed through regional and especially *woreda* budgets. This is illustrated in Figure 1 which demonstrates the rapid growth in *woreda*-level staff as a result of these targets and policies, often set at the federal level. The figure focuses on the growth in the number of HEWs, DAs, and primary school teachers.

5. This increased staffing has led to substantial improvements in basic service delivery indicators. Primary and secondary enrollment rates have shown a steep upward trajectory with an acceleration, to some extent, in the early- to mid-2000s. The number of children in primary schools which stood at about 5.1 million in 1998/99 reached almost 15 million by 2012/13, an increase of almost 300 percent. On the health side, several key health indicators have improved substantially during decentralization. Contraceptive prevalence rate and the percentage of births attended by skilled health personnel have increased by 350 percent.

Figure 1: Increase in Basic Service Staff



Source: PBS Secretariat

6. Since 2006, the Bank and other DPs in Ethiopia have supported the GoE’s IGFT system through the PBS 1, 2, and 3 programs. During these projects, the DPs contributed about 20–30 percent of financing for the block grants and ensured that the transfers met several fundamental criteria, including fairness and additionality,¹⁵ among others. In addition to this *woreda* block grant financing, the PBS provided funds for PFM, procurement, M&E, FTA, and SA activities. The PBS will close in 2018, focusing on capacity support for citizen engagement, public financial management, managing for results and risk and safeguards capacity management.

7. This PforR seeks to continue support of the *woreda* block grants and the expansion of services that this entails. In addition, it will continue to consolidate and expand capacity development support, with the aim of strengthening the overall service delivery system allied to the IGFT.

¹⁵ The fairness and additionality tests of the PBS ensured that *woreda*-level governments received their transfers in accordance with their previous year’s budgeted amounts and that the federal-level government’s contribution to the block grants increased year-on-year, respectively.

B. Description of the Bank Program

8. The Bank’s proposed PforR operation aims to support the GoE’s continuous effort to expand and improve its *woreda* block grant system and the human development outcomes that accompany it. The boundaries of the Bank’s program will be all activities included in this *woreda* block grant system described above. The predicted scale of financing of the *woreda* block grants by the PforR is in table 2. The IDA-financed portion does not exceed 12 percent of the total.

Table 2: Estimated Size and IDA/DP Financing of IGFT Transfers 2015/16–2017/18 (US\$, millions)

	2015/16	2016/17	2017/18	Total
<i>Woreda</i> Block Grants Total Value ^{a/}	1,948.5	2,598.0	3,464.0	8,010.5
Government Contribution ^{b/}	1,430.0	1,906.6	2,542.1	5,878.7
IDA Contribution	200.0	200.0	200.0	600.0
Other Development Partners	89.2	84.0	84.0	257.2
IDA Share	10.3%	7.7%	5.8%	7.5%
Financing Gap	229.3	407.4	637.9	1,274.6

9. Although the PforR and the government programs are inherently aligned, the Bank operation will bring an enhanced focus on key results areas:

- Ensuring equitable access to basic services
- Enhancing citizens engagement, environmental and social management capacity
- Deepening fiduciary aspects of basic service delivery
- Ensuring quality data access and results

10. The key PDO indicators for the Bank operation include:

- Per capita increase in federal government block grant transfers to regions, excluding Addis Ababa
- Improved geographic equity in NER outcomes
- Improved geographic equity in Penta3 outcomes
- Increased women headed households getting agricultural advisory services
- Increased *woredas* screening projects for their environmental and social effects.
- Increased *woredas* conducting pre-budget discussions
- PFM Benchmarking Rating system established in all regions

C. Strategic Relevance

11. The strategic relevance of this operation is assessed by the following criteria:

- Ensuring equitable access to basic services
- Enhancing citizens engagement, environmental and social management capacity and safeguards
- Deepening fiduciary aspects of basic service delivery
- Ensuring quality data access and results

1. Alignment of Program Objectives with the Country's Needs

12. The provision of basic services is one of the primary drivers behind Ethiopia's impressive strides in poverty reduction. The recently completed Poverty Assessment cited large-scale public investments in health and education as having both increased country-wide economic growth and improved the welfare of the poor. As spending increases, the study notes, more rural poor households are able to gain access to previously unavailable services. Thus, financing for the IGFTs which are the government's main tool in its push to expand service delivery is leading to poverty reduction and improved human development outcomes. Table 4 presents the progress in selected health status and service indicators over the period 2008–2011. The overall profile shows considerable progress. Over the analysis period, there has been substantial reduction in child malnutrition and child mortality as well as considerable expansions in child immunizations and maternal health services.

13. Inequality, however, remains a challenge. Wealth-gap-based rate differences between the worse-off (bottom 40 percent) and the better-off (top 60 percent) households has changed in favor of the rich. Similarly, the relative equity measure based on the rate ratios confirms pro-rich inequalities for some child health indicators. From a geographic perspective, the net primary enrollment rate for grades 1–8 among *woredas* in the bottom decile of education outcomes stands at 19 percent, which is 64 percent below the national average of 83 percent. Among the bottom decile in health outcomes, access to births by skilled attendants (a major driver in reducing maternal mortality) is only 2 percent compared to the national average of 20 percent.¹⁶

2. Alignment of Program Objectives with the Government's Priorities

14. The GoE has committed itself to achieving middle-income status by 2025. As such, its primary focus is on development activities and it has demonstrated a sustained commitment to improving human development outcomes. In 2013, it was recognized as having achieved the targets for MDG 4 (reducing child mortality) ahead of schedule. It is also on track to reach targets in many of the other MDGs, including halving the proportion of people in extreme poverty, gender parity in primary education, HIV/AIDS prevalence, and environmental sustainability.¹⁷

15. At the same time the GoE is focused on the MDGs, it is making progress on human development through its own development agenda—the GTP. The GTP is the government's ambitious five-year (2011–2015) plan for poverty reduction and sector development. It has prompted the GoE to set and pursue ambitious basic service targets, which has resulted in expanding access to the IGFT-financed decentralized services.

16. The government is very supportive of the block grants system; its ownership of decentralized service delivery is strong. As evidence of this ownership, the IGFTs are the largest item of government expenditure. Block grants represent about 40 percent of the government's total annual expenditure. From 2005/06 to 2012/13, it provided approximately US\$8.6 billion on

¹⁶ PSIA database

¹⁷ UNDP website (<http://www.et.undp.org/content/ethiopia/en/home/mdgoverview.html>)

decentralized expenditure, most of it dedicated to the basic service sectors. This makes it by far the largest financial contributor to the IGTFs.

D. Technical Soundness

17. A technically-sound program is one that is designed and implemented to efficiently yield the required results and achieve its objectives. This can be assessed on the basis of program experience to date and in relation to international experience and best practices. In assessing the soundness of Ethiopia's IGFT system, the key parameters to be considered include:

- A positive relationship between expenditure at the *woreda* level to provide services and key outcomes for those sectors¹⁸
- The ability of the transfers to expand access in an equitable or pro-poor manner
- Incentives that encourage officials and basic service staff to effectively utilize IGFT funds to provide services
- The achievements in terms of expected results over the recent past

1. Effectiveness of the IGFT System in Delivering Basic Service Access

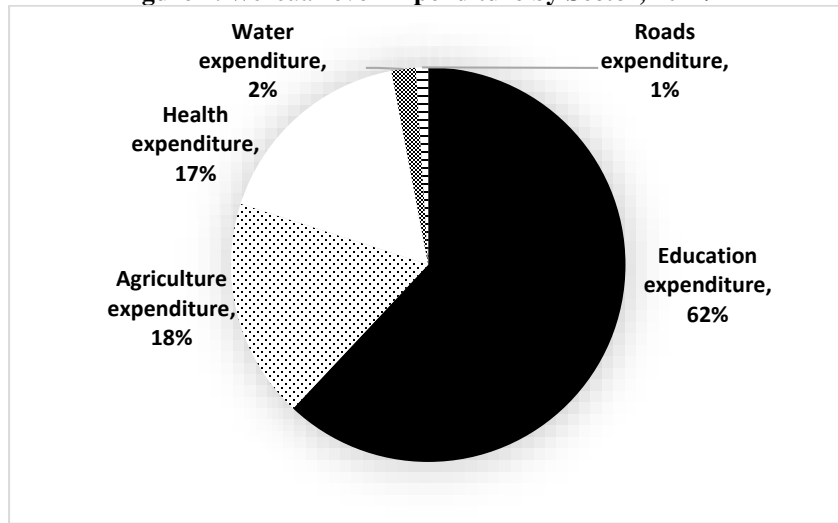
18. On average, about 85 percent of *woreda* budgets are taken up by recurrent costs, a great majority of which are dedicated to salaries for staff in the basic service sectors. Of recurrent costs, education receives by far the largest amount. Figure 2 shows the typical breakdown of recurrent costs in 2011/12. Education receives over three times the amount of health and agriculture. Each of those takes less than one-fifth of the spending. Water and roads expenditures comprise a small portion of a *woreda's* budget.

19. Overall, analytic¹⁹ work has demonstrated that expenditures in recurrent basic service delivery are (a) associated with effective improvements in basic service access and (b) promote both geographic and wealth equality in basic service access. In education, health, and agriculture, fundamental outcome indicators were positively and significantly associated with *woreda*-level expenditures. Historically disadvantaged regions and *woredas* received, on the whole, a relatively greater proportion of block grant transfers. Additionally, analysis by wealth quintile often showed a pro-poor bias from such expenditures, with a disproportionate amount of benefits accruing to lower-income households.

¹⁸ This is especially true for the education, health, and agriculture sectors, as *woreda*-level spending in those sectors is associated strongly with key service outputs such as number of teachers, HEWs, and agricultural extension workers.

¹⁹ PBS PSIA, 2014.

Figure 2: Woreda-level Expenditure by Sector, 2011/12



Source: MoFED

20. Education spending comprises the largest share of a *woreda*'s expenditure; it is strongly associated with improvements in outcomes. Table 3 shows the relationship between spending and outcomes for three indicators—the NER for grades 1 to 8, the NER for grades 5 to 8, and the pupil-teacher ratio. All are significantly associated with increased *woreda*-level expenditure; the size of these associations is large. Every additional US\$1 per capita of *woreda* education spending is associated with an improvement in the NER of 2.1 percent. For grades 5 to 8, this increases to over 4 percent. For pupil-teacher ratio, the negative association is indicative of a higher education expenditure being associated with a lower pupil-teacher ratio and is strong at 3 percent. These results are all significant at the 1 percent level and robust to changes in specification.

21. Given that the project seeks to ensure the continued expansion and delivery of services at the local level, it is rational to select two DLIs pertaining to the NER for grades 5–8. The association of enrollment to spending is largest at this level as shown in Table 3. From 2007/08 to 2012/13, the median NER for grades 1–4 increased by 7.5 percent and stood at an average of 90 percent. During the same period, the NER for grades 5–8 went up by over 27 percent and stood at an average of 44 percent. These findings imply, as does the analysis above, that the marginal cost for an increase in enrollment is less for grades 5 to 8 than the lower grades.

Table 3: Association of Log Per Capita Education Expenditure with Log Education Outcomes

Independent Variable	Dependent Variable	Coefficient	Association of US\$ Per Capita (%)	Significance
Log of expenditure	Log of NER, grades 1–8	0.155 (0.0182)	2.1	***
	Log of NER, grades 5–8	0.318 (0.2840)	4.3	***
	Log of pupil-teacher ratio	-0.221 (0.0206)	-3.0	***

Source: Based on the PSIA database from 2008 to 2011.

Note: Number of observations is 2,595 for NER for grades 1–8, 2,581 for NER for grades 5–8, and 2,651 for pupil-teacher ratio. Standard errors given in parentheses; *** indicates significance at 1 percent level.

22. Similarly, health outcomes show strong positive and significant relationships with local-level spending (Table 4). Rates of antenatal care, contraceptive use, and deliveries by skilled attendants increase as *woreda* health expenditures increase.

Table 4: Association of Log per Capita Health Expenditure with Log Health Outcomes

Independent Variable	Dependent Variable	Coefficient	Association of US\$ Per Capita	Significance
Log of expenditure	Log of antenatal care	0.076 (0.0337)	3.5%	**
	Log of contraceptive acceptance rate	-0.019 (0.0410)	Not Significant	Not Significant
	Log of contraceptive acceptance on expenditure lagged one year	0.164 (0.0491)	7.6%	***
	Log of deliveries by skilled birth attendants	0.253 (0.0746)	11.7%	***

Source: Based on the PSIA database from 2008 to 2011.

Note: Number of observations is 2,230 for contraceptive use, 2,265 for antenatal care, and 2,143 for deliveries by skilled attendants. Standard errors given in parentheses; ** indicates significance at 5 percent level and *** indicates significance at 1 percent level.

23. About a fifth of *woreda* expenditure is toward agriculture. Several aspects of improved farming techniques are significantly and positively associated with per capita spending on agriculture (table 5). The farming techniques examined here include the percentage of fields using fertilizers, improved seeds, and any extension service overall. These activities are directly under the remit of the *woredas*' agricultural DAs to provide to local farmers. The analysis shows that more spending for DAs is associated with more fields in a given zone using these enhanced farming

techniques. For example, for every additional US\$1 spent per capita, the probability that a field will benefit from extension services increases by about 0.02 percent. This is seen in the result of cross-time pooled regressions on Agricultural Sample Survey data between 2008 and 2011. About 85 percent of all agricultural output, measured in terms of quintals per metric ton, show a positive and significant association with agriculture expenditure. These include cereals, vegetables, fruit, and coffee. The overall objective of spending on agriculture is to increase the productivity of farmers' fields. These results, combined with the positive effect of spending on agricultural extension services, indicate that *woreda* block grants play an important role in increasing farmers' productivity.

Table 5. Effect of Farmers' Use of Extension Services of ETB 1 Per Capita Spending on Agricultural Extension Workers

Indicator	Coefficient	Significance
Field using extension services	0.0008 (0.0004)	**
Field using improved seeds	0.0002 (0.0001)	*
Field using fertilizers	0.0007 (0.0003)	**

Source: Based on probit models using cross-time pooled Agricultural Sample Survey data from 2008 to 2011.

Note: Agricultural Sample Survey data aggregated to the zonal level. Number of observations is 191. Controls include current and previous years' deviations from average rainfall (calculated as the average between 1996 and 2011), zonal poverty rate, percentage of the zone's population that is rural, and the ethnic groupings used in previous regressions. Standard errors are given in parentheses; ** indicates significance at 5 percent level, * at 10 percent level.

2. Effectiveness of the IGFT System in Ensuring Equity

24. Block grants seem to preferentially benefit less well-off regions and *woredas*. In terms of expenditure per capita, the current IGFT system broadly favors Ethiopia's historically disadvantaged regions at the expense of the historically dominant ones. More than 50 percent of the *woredas* in Gambella spend more than 110 percent of the national average on the basic service sectors; so do 30 percent of the *woredas* in Benishangul-Gumuz. Gambella and Benishangul-Gumuz are among the regions that historically have been the most economically deprived.

25. Block grant transfers also appear to target less well-off *woredas* within all regions. This proposition was tested using 2011/12 expenditure data with the variation in percent from the mean of per capita *woreda* block grants as a dependent variable, head count poverty rate as an independent variable, and dummies for the different regions as control variables. The results show that head count poverty rate for the *woreda* is significant in determining the level of the per capita *woreda* block grant even though this is not explicitly included in any of the regional block grant formulas. The mean head count poverty in the sample is 29 percent and the standard deviation is 13 percent. The highest head count is 86 percent and the lowest about 1 percent. The mean per capita grant is ETB 227 and the standard deviation is ETB 119. The results show that for a 1 percent increase in the poverty head count, the per capita allocation will increase by about ETB 0.17. Thus a *woreda* with a poverty rate of one standard deviation above the mean (42 percent) is

predicted to receive about ETB 2.2 more per capita. This can translate into significant improvements in access to basic services.²⁰

26. This conclusion is further strengthened by looking at the association of *woreda*-level sectoral expenditure within two subgroups of *woredas*: (a) those comprising the bottom 20 percent in terms of poverty head count and (b) those comprising the bottom 20 percent in terms of outcomes. The results (Table 6) show that increases in per capita education spending in the poorest 20 percent of *woredas* is associated with 4.1 percent higher outcomes in NER for grades 1–8 and 6.2 percent higher for grades 5–8. This is substantially higher than the national average. In the poorest quintile by *woreda*, per capita health spending however was not associated with significant improvements in antenatal care or deliveries by skilled birth attendants. When turning to the bottom 20 percent in terms of outcomes, the association between spending and the NER in this subgroup was 1.2 percent for grades 1–8 and 2.1 percent for grades 5–8. These are about half the national average. This lower association seems to be driven by the Somali region. The Somali region is unique in that it has some of the lowest human development outcome indicators in the country, but due to its high level of livestock holdings its *woredas* are not considered poor. When the Somali region is removed from the second subgroup, there is much larger association; 4.4 percent for grades 1–8 and 5.5 percent for grades 5–8. These are more in line with the results from the poverty subgroup. Regarding health, the bottom 20 percent in terms of outcomes show a higher association with health²¹ spending than the national average. Antenatal care is almost twice as high as the average and deliveries with skilled birth attendants is 50 percent higher and significant.

Table 6. Impact of Increase in Per Capita Woreda Block Grants on Service Delivery Outcomes

Indicators	National (%)	Bottom 20% of Woredas by Poverty Rate (%)	Bottom 20% of Woredas by Education Outcomes (%)	Bottom 20% by Poverty Excluding Somali Region (%)	Bottom 20% by Education Excluding Somali Region (%)	Bottom 20% of Woredas by Average Health Outcome (%)
NER 1–8	2.1***	4.1***	1.2**	4.2***	4.4***	n.a.
NER 5–8	4.3***	6.2***	2.1**	4.4***	5.5***	n.a.
Access to Antenatal Care	3.5**	NS	n.a.	NS	n.a.	6.9*
Proportion of Births Benefiting from Skilled Attendants	11.7***	NS	n.a.	22.4**	n.a.	17.1**

Source: PSIA database.

Notes: *** indicates significance at 1 percent level; ** at 5 percent level; * at 10 percent level; NS is not significant; n.a. is not applicable

²⁰ Khan et.al. Forthcoming.

²¹ Outcomes here are defined as the average of antenatal care, contraceptive use, and deliveries by skilled attendants.

27. With regard to gender, the IGFTs seem to be biased in favor of women on the whole. In the education sector, there is no significant difference between male and female primary net enrollment, either in grades 1–8 or 5–8. In the health sector, a majority of the IGFT expenditure is directed toward the HEWs who are strongly pro-female. These two sectors account for about 80 percent of the IGFTs.

28. It does seem likely that there is a bias against women in the agriculture sector from the IGFT expenditure. Females are less likely to use enhanced cultivation techniques, which are strongly associated with agriculture extension agents' work, on their field than men. Due to this, the ESPES is proposing a DLI that focuses on the percentage of qualified DAs that are women. Currently, the level of female DAs is low; around 16 percent. The idea behind this DLI is that female DAs will be better positioned to provide personalized experience to female farmers and increase their uptake of enhanced cultivation methods.

E. Implementation Arrangements

1. IGFT System Architecture

29. The MoFED is the implementing agency for the IGFTs given its overall responsibility for supporting financial flows from the federal to more decentralized levels and for ensuring that PFM systems work smoothly. Within the MoFED, the COPCU is responsible for coordinating daily ESPES activities across the basic service ministries, government bodies, and subnational government entities and for ensuring compliance with joint legal agreements.

30. At the regional government level, the BoFEDs have similar responsibilities as the MoFED has at the federal level. The BoFED responsibilities include (a) receiving, consolidating, and transferring financial and expenditure reports from the WoFED offices to the MoFED; (b) receiving *woreda*-level plans for the basic service sectors and assisting *woredas* in reconciling their plans within the agreed budget; (c) allocating budgets to *woredas* in line with the agreed fiscal transfer formulas; (d) reviewing and consolidating results reports from *woreda* governments; and (e) following up on audit findings and informing the MoFED for the consolidation of action plans.

31. At the local level, the WoFEDs and Urban Administration Offices of Finance have similar responsibilities as those of the BoFEDs. Their responsibilities also include (a) undertaking regular M&E and coordination with *woreda* sector offices; (b) undertaking operational tasks such as planning, supervision, and FM; (c) submitting consolidated monthly reports, including monthly reconciliation of expenditures to the BoFEDs; and (d) reporting on a monthly basis on the actual use of block grants, including basic services subprogram resources at the local level and overall performance in relation to service delivery targets.

2. Incentives in the IGFT system

32. The IGFT system in Ethiopia provides incentives for *woreda* and *kebele* officials to maintain and expand basic service delivery. The decentralized nature of this economic governance system encourages local-level officials to provide services because they are held accountable to their constituents.

33. The program’s design recognizes that the long ‘indirect route’ of accountability works precisely because of decentralization. As described in the WDR of 2004, service providers are strictly accountable to local governments for producing results in the ‘indirect route’, but in turn the local authorities are held accountable by the regional and federal governments for delivering basic services and reaching the delivery targets set in the GTP. Teachers, health workers, and agricultural extension workers who deliver the services are recruited and managed by the *woreda* leadership. Local competition for these leadership positions is significant and officeholders are keen to reach their service delivery targets. This arrangement encourages local authorities to listen to citizens and take responsibility for results.

3. Managing Fraud and Corruption

34. Regarding F&C, current information indicates that F&C is not an issue for *woreda*-level expenditures. Financial controls on salary payments, which constitute a majority of *woreda*-level expenditure, are extremely onerous and difficult to bypass. During the PBS implementation, continuous random audits and spot checks have not revealed any problems such as ‘ghost workers’—the most common form of fraud in salary payments. There is a robust legal framework for addressing F&C in Ethiopia. The FEACC and REACCs have adopted both preventive and curative approaches for combating corruption in the country.

35. In the broader context, the GoE has agreed to implement the PforR in accordance with the anticorruption guidelines that are applicable to the Bank’s PforR operations. If any F&C cases arise, they will be addressed through the complaint-handling mechanisms that will be built into the ESPES PforR. The GOE will also take into account the investigation of F&C allegations as per the MOU signed between the FEACC and INT.

F. Program Expenditure Framework

1. Financial Sustainability and Funding Predictability

36. The IGFT system is large and growing; it covers basic service delivery expenditures for areas outside Addis Ababa, totaling 90 million beneficiaries. In 2014/15, ETB 51 billion were transferred of which DPs financed less than 20 percent.

37. In line with increasing transfers from the national level, the transfers from regions to *woredas* are also increasing. The amount of *woreda*-financed basic service expenditures has increased over four-fold between 2005/06 and 2012/13. Basic service sectors which are defined as education, health, agriculture and rural development, water supply and sanitation, and rural roads, absorbed more than 65 percent of total budgets at both regional and *woreda* levels. *Woreda*-level expenditures are heavily skewed toward recurrent spending, taking up more than 85 percent of their total budget (of which more than 70 percent was for salaries).

2. Adherence of Budgeted Expenditure and Budget Execution to Government Priorities

38. The IGFT system is funded through an annual budgeting process. This involves both bottom-up and top-down planning exercises. In the bottom-up process, each *woreda*’s sector

offices engage partners and dialogue with the community. They then prepare their respective plans, ensuring that their targets are aligned with national goals, and consolidated budget requests. Each *woreda* takes into consideration available financing for the fiscal year which includes the budget ceiling provided by the *woreda* council and estimated in-kind transfers from the relevant sector ministry and other resources at the *woreda* level, including user fees. The proposed budget is then negotiated with the *woreda* council as part of the budget preparation and approval process.

39. The MEFF is the top-down process that follows the decentralized fiscal arrangement. It includes grants for the regional states and ensures they are in accordance with the national equity formula. The regional states subsequently set the general-purpose grants for *woredas* and the *woreda* councils in turn provide sectoral ceilings. The general-purpose and specific-purpose grants include external loans and on-budget external grants. In addition to these grants, there are other external resources flowing from the line ministries to the regions and *woredas* (for example, the MDG fund and vertical programs financed through external funds).

40. Budget execution for the IGFTs is very high. This is not surprising given the important role they play in Ethiopia reaching its development targets. In 2013/14, almost 99 percent of the budgeted amount was spent. There is also an improving trend. The deviation decreased from 6 percent in 2010/11 to just over 1 percent four years later.

G. Results Framework and Monitoring and Evaluation

1. IGFTs and Results Monitoring

41. There is a long tradition of monitoring the inputs, outputs, and outcomes of the IGFTs. As the cornerstone of DPs' engagement with the government on service delivery, the PBS has tracked results since 2006. Indicators relating to fairness and additionality monitored the levels and allocations of the transfers themselves. Other indicators measured outputs such as service delivery staff hired. In addition to this, it also constructed the monitoring architecture to collect and discuss results. The semiannual Joint Budget and Aid Review (JBAR) and JRIS missions were critical for monitoring the project's indicators as well as additional information critical for the success of the overall decentralization process.

42. There has also been intense oversight of IGFT results through the government's own efforts. The government's five-year development agenda—the GTP—is a results-oriented government-implemented program that places a high priority on service delivery outcomes.

2. ESPES Results Framework

43. An ESPES results framework has been developed by the Bank task team in collaboration with the government. The results framework takes into account planning under the GTP and its successor, and the new framework anticipated under the program design.

44. The ESPES framework contains 25 indicators. These indicators are largely specific, measurable, attainable, relevant, and timely (SMART). Several indicators still have relevant values for baselines and targets under discussion. The specific methods of measurement and validation have mostly been laid out in the framework. Within these indicators are 13 DLIs.

45. The overall objective of the ESPES is to promote equitable delivery of basic services and strengthen accountability mechanisms at the local level. The seven PDO-level indicators encompass the PDO. Four are dedicated to measuring the expansion in the access and equitable distribution of basic services and three track the activities to strengthen SA mechanisms. Intermediate indicators for each of the four thematic areas of the project cover a range of activities that will strengthen and support the overall PDO.

3. Monitoring and Evaluation Institutional Setup

46. The arrangements for M&E will be spread across several government agencies. The CSA is an autonomous government body. It will be responsible for independent measurement and verification of several indicators, especially for those indicators that are also DLIs as well as those for which survey data will need to be collected. Other government agencies will monitor indicators in their relevant areas. The MoE and MoH will monitor indicators in their respective sectors. The EMCP within the MoFED will play an important role in PGM and *woreda* benchmarking in this area. The OFAG will take the lead on audit capacity building and follow-up. For indicators related to SA activities, the ESAP project manager will be responsible.

4. Capacity Requirements

47. There exists capacity constraints in several areas of M&E activities:

- capacity of sectoral MIS offices to adequately assess, compile, and, when necessary, communicate with *woreda*-level officials
- a lack of a nuanced understanding by *woreda*- and zonal-level officials of the various indicators captured in the MIS systems
- hardware and manpower constraints to compile data from disparate databases into one unified dataset
- the awareness of decision makers to utilize outputs of M&E data as inputs for planning purposes
- the capacity to implement or contract out and supervise various assessments and surveys

48. To address these shortcomings, extensive capacity-building activities need to be undertaken. Training will be one of the primary methods to build capacity. At the *woreda* level, officials should receive additional training on the rationale for the indicators they compile and send to zonal offices. At the federal level, the MIS can be strengthened through both hardware and manpower improvements. Investing in hardware to compile these databases and train the relevant MIS staff in how to do this can yield impressive results. Similarly, raising awareness among decision makers regarding the results of M&E can help them better integrate findings into the planning of future work.

H. Program Economic Evaluation

1. Program's Economic Impact

49. Given the scope of the project, including its nationwide reach, multisectoral nature, and wide-ranging impacts, it is difficult to perform an overall economic evaluation of the program. There is, however, strong evidence to support the proposition that *woreda* block grants have had a substantial impact on development outcomes and that these outcomes have resulted in a higher level of benefits than costs.

50. As mentioned in the paragraph above, the PSIA provides a strong argument for the effectiveness of block grant support. It showed how incremental increases in the transfers led to increased local-level expenditure on basic services such as education, health, and agriculture. Moreover, further work has shown that the size of this association is magnified among *woredas* at the bottom (a) wealth quintile and (b) quintile in terms of outcomes.

51. A separate evaluation of the *woreda* block grant system's VfM showed a high cost-benefit ratio. This analysis was undertaken by the DFID. Their methodology used cost-benefit techniques to estimate a cost-benefit ratio for the system. Their calculation depended on a number of assumptions about the impact of investment at the local level to monetize the potential benefits. The study estimated the ratio to be 1.43, indicating that benefits far outweigh costs. Furthermore, this estimate is robust to changes in the underlying assumptions. There are significant margins for outcomes to undershoot before the estimates of the economic viability of the block grant system become questionable. Thus block grant transfers appear to be an efficient and cost-effective mechanism to improve results.

2. World Bank's Value Added

52. The Bank is well positioned to support the GoE in its IGFT system. As an organization with extensive institutional knowledge and experience in the sector, it is uniquely positioned to provide guidance and support on international good practices. The Bank has the technical expertise to assist in the project's implementation and evaluation. Additionally, the Bank has demonstrated its authority as a convening organization in the country as well as its commitment to the multi-donor process. The proposed PforR will especially draw on the Bank's role in this area. The DPs will be able to provide financing via the traditional route of the PBS Subprogram A, MDTFs, or through new PforR-oriented channels.

I. Inputs to Program Action Plan

53. Based on the above analysis, the following actions have been identified as key areas for improvement. Together with the proposed actions from the Fiduciary and the Environment and Social Safeguards Assessment, these will form the basis for an overall Program Action Plan.

54. *M&E.* Under systems-strengthening activities, some bottlenecks need to be addressed to ensure consistent and quality data. The overall progress of the M&E systems-strengthening activities requires attention, with a specific focus on progress in training, especially with regard to data collection formats and timeliness of reports. Each ministry (MoE, MoH, and MoA) and government agency needs to take stock of the training required and develop a timetable under which it will be held to provide the training. Increased technical support can be provided from the COPCU, secretariat, and DPs as needed.

55. *Costing of basic service delivery.* Understanding the costs of basic service provision is essential for budget planning and ensuring effective and efficient resource allocations. While there is usually some understanding of service delivery costs when resource allocations are made, the evolving dynamics driving cost estimates may not always be adequately reflected. As costs of service delivery are bound to change with changes in economic conditions, demographic changes, and infrastructure improvements an improved/updated understanding of basic service costs is essential. As such, a Costing of Basic Services Study will be conducted to better understand the effects of costs on service delivery and elucidate any regional variations in unit cost.

56. *Domestic Revenue Mobilization Study.* Given the medium- to long-term goal of Ethiopia to fully fund the costs of its primary service delivery, a study will be undertaken to better understand the situation regarding domestic resource mobilization. There have been many changes in Ethiopia's structure and sources of domestic revenue generation over the last 15 years, including direct taxes, tariffs, and regional- and *woreda*-owned revenue collection. The study will draw an extensive body of existing work and undertake new analytical analysis as required.

57. *CSA, OFAG, FEACC, and FPPAA and their role as verifying entities.* Due to their role as verifying agencies under the ESPES, the capacity of these agencies will need to be strengthened in line with the additional responsibilities the role entails. The CSA will carry a large portion of responsibility for verification. As an independent government agency, the CSA's mandate is to generate statistical data in relation to the socioeconomic situation in the country; and it has shown itself very capable in this regard. In its role as a verifying entity under the ESPES, the CSA will take on additional collection and analysis responsibilities from a variety of sectors. The OFAG is also a legally independent government agency. Under its verifying role in the ESPES, it will be tasked with collecting the necessary information and in the case of DLI 8 (establishing a benchmarking system of *woreda* PFM performance) it will incorporate additional information into its ongoing Continuous Audit Process. The capacity building they will receive will ensure that the appropriate staff are in place and they are appropriately skilled to undertake these additional responsibilities.

J. Technical Risk Rating

58. **The technical risk rating for this project is Medium.** The major technical risks arise from (a) staff turnover, (b) data quality, (c) project management, and (d) institutional capacity. While the government has continued to make progress in budget formulation and execution with the ongoing technical assistance of DPs, a lot remains to be done. The table below summarizes these risks and some of the main mitigation measures.

Risk	Mitigation measures
<p>Additionality - There is a risk of a disruption to the continuous support of the <i>woreda</i> block grant system. Additionality requires the same or a rising amount of funds transferred to the <i>woredas</i> through the IGFTs. This will ensure a predictable, consistent flow of funds, allowing <i>woredas</i> to develop their planning procedures and continue to expand the delivery of services.</p>	<p>DLI 1 attempts to address this risk. This provides an incentive for the government to continually increase the per capita allocation of <i>woreda</i> block grants every year. In the two years after November 2015, the DLI will disburse against increases in the per capita allocation taking into account reasonable expectations for inflation.</p>
<p>Equity - Although the <i>woreda</i> block grants have been shown to promote convergence in equitable outcomes, there are still wide discrepancies between <i>woredas</i> along the wealth spectrum. There is the risk that without sustained attention on the equity dimension, these divergences can increase over the medium term.</p>	<p>DLI 5 is meant to mitigate this risk. By monitoring the geographic and wealth disparities in education and health outcomes, the DLI will incentivize the government to continually address this issue. The indicators selected for these DLIs are keystone indicators, implying that their performance will stand across many other indicators in the sector.</p>
<p>Data quality and validation - Issues of data quality can lead to uncertainty in the reliability of the project’s results.</p>	<p>DLI 11. Data quality is seen to be improving in Ethiopia. The ongoing PBS Sub Program B (for capacity support) will continue to support activities to strengthen data quality at federal and local levels by supporting the M&E systems of line ministries and collaborating closely with the CSA. Other projects are also focusing on improving the capacity of the CSA and the line ministries.</p>
<p>Deterioration in basic service access - Ethiopia has made great strides in expanding the reach of government services, especially to the rural poor. With the improvement of some indicators reaching a peak (for example, NER for grades 1–4), there is the possibility that there will be a shift in priorities away from service delivery.</p>	<p>DLIs 2, 3, and 4 address this risk. By setting targets on the number and composition of health and agriculture extension agents, the ESPES hopes to ensure that service delivery is continually maintained as a high priority for the government. Similarly, setting a target for the NER in grades 5–8 is a sign of the further achievement that is possible in this indicator.</p>
<p>Performance in PFM and procurement will continue to decrease or vary—the use of government systems for block grant transfers and accounting has greatly increased many local-level administrations’ ability to provide PFM and procurement reports in a timely manner. There are still a sizeable contingent of <i>woredas</i>, however, which experience substantial delays in the submission of reports and implementation of audit actions.</p>	<p>DLI 8 and 9. By benchmarking PFM performance of <i>woredas</i>, a better understanding of the weakness in the system will be identified allowing for corrective measures to be taken proactively. Similarly, strengthening the capacity of the regional procurement bodies will allow them to provide better assistance to lagging <i>woredas</i> and identify problems ahead of time.</p>

K. Inputs to the Program Implementation Support Plan

59. The PforR implementation modality is not a new undertaking for the GoE. The PforR instrument will be the third such program for the borrower. Similarly, the program covers the Government's system for delivery of basic service, which is supported by the Federal Government through the IGFTs, as under the PBS series. The harmonized approach of monitoring and implementation support developed under the PBS will largely be carried forward under the PforR.

60. Semi-annual joint meetings will take place during the program. The main objectives of these will be to (a) take stock of overall results, (b) assess implementation progress and identify bottlenecks in implementation, and (c) identify future priorities and agreed actions for support for the near and longer term. They will be attended by government representatives at all levels of program implementation and regions as well as high-level stakeholders from the MoFED and sectoral ministries. Each JRIS is preceded by sectoral or cross-sectoral field missions to at least two regions and several *woredas*.

61. Subprogram B of the PBS will continue in unison with the ESPES PforR. The subprogram will provide a wide variety of capacity-building and technical assistance measures to ensure that the implementing agencies are able to undertake their respective duties. Subprogram B1 will support the roll out and expansion of all citizens' engagement activities, including the roll out of SA and financial transparency arrangements. Subprogram B2 will continue to support PFM reform efforts. Subprogram B3, Managing for ResultsM4R, will continue to support the development of regional M&E systems-strengthening measures.

62. Targeted trainings will be provided to key implementing agencies. This will be especially important for the CSA and OFAG as their role of verifying agencies will require additional tasks be undertaken.

63. Other implementation support architecture is in place that will monitor the program. Technical-level working groups and joint DP-government meetings convened monthly discuss ongoing issues and monitor progress. The donor coordination team (formerly PBS Secretariat) will be staffed with technical experts to support smooth implementation. Ad hoc meetings to discuss unexpected or time-sensitive issues will be called as necessary.

Annex 5: Fiduciary Systems Assessment Summary

1. An Integrated Fiduciary Assessment of the proposed program's fiduciary systems was carried out on the federal, regional, and local government entities that will implement the ESPES program consistent with OP/BP 9.00, Program-for-Results Financing. The assessment used the results of the 2014 draft PEFA reports that covered the federal government and six regions; the findings of the continuous audits for the last four years that covered 262, 283, 281, and 265 *woredas* annually; the findings contained in the annual audit reports of the Federal Auditor General that are presented to the parliament; and field work in a sample of 25 *woredas* located across the country. Two teams of FM, procurement, and governance experts travelled to the sample *woredas* during September and October 2014 for this assignment. The review assessment examined FM procurement systems, rules and procedures—including oversight mechanisms at the program implementing entities—as well as F&C and complaint-handling mechanisms. Lessons learnt in previous operations such as the PBS and ULGDP were also incorporated in this assessment.

2. The Fiduciary Assessment entailed a review of the capacity of the sample participating entities on their ability (a) to record, control, and manage all program resources and produce timely, understandable, relevant, and reliable information for the borrower and the Bank; (b) to follow procurement rules and procedures, capacity and performance focusing on procurement performance indicators and the extent to which the capacity and performance support the program development objectives and risks associated with the program and the implementing agency; and (c) to ensure that implementation arrangements are adequate and risks are reasonably mitigated by the existing framework.

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3. The 2014 draft PEFA assessment for the federal government notes the significant improvements that have been made over the last three years. Expenditure deviation was less than 5 percent per year over EFY2003–2005, compared to 11.6 percent over EFY1999–2001, and actual revenue collection ranged between 94 percent and 112 percent of the budget during the last three years. Bills are cleared on time and arrears is not a major issue. The internal control system is comprehensive, widely understood, and effective at the federal government level. Audit coverage at the federal level has increased in recent years from 56 percent to 100 percent of budgetary institutions and audit reports are produced in a timely manner. The main areas where the federal government needs to improve its performance relates to legislative scrutiny of audit reports, oversight of fiscal risk from public sector entities, public access to key fiscal information effectiveness in collection of tax payments, predictability of funds for commitment of funds, and quality of in-year budget execution reports.

4. Five regions and one city administration were assessed. These were Tigray, Amhara, SNNPR, Oromia, Somali, and Addis Ababa. All regions show major improvements from the previous assessment conducted in 2010. Their ratings on average are lower than the federal government. The areas where the regions need to focus on improving include the extent of unreported government operations, effectiveness in collection of tax payments, comprehensiveness of information included in budget documents, weaknesses in multi-year

planning, composition of expenditures compared to the original budget, and availability of information received by service delivery units. The GoE has a well-designed public financial reform program that is addressing these weaknesses in a systematic manner.

5. Since this project will be financing *woreda*-level expenditures, the key focus of this assessment was on *woreda*-level PFM systems and weaknesses noted in the continuous audit reports as well as the project-specific PFM assessment conducted in 25 *woredas*. The key finding of the *woreda*-level fiduciary assessment specific to the ESPES is that strong FM systems are in place and IBEX is rolled out to almost all *woredas*. The annual budget is proclaimed and notified as per budget procedures by regions and budget and actual expenditure are disclosed to the public in the local language. Accounting, IBEX, budget, and internal audit manuals are available at all visited *woredas*; pool system guidelines have been developed and issued. Audit committees are established at the sample *woredas* that were visited, and funds are released to *woredas* in a timely manner; the segregation of duties on payment is generally satisfactory. The payroll system is strong and timeliness of reports of the visited *woredas* has improved—6 out of the 8 regions closed their books of account and published their consolidated account in readiness for the annual audit for EFY2005 (2012/13). Audit coverage on average has reached 58 percent which is a significant improvement from the situation five years ago.

6. The main areas of weakness in *woredas* were: poor infrastructure and network capacity, weaknesses in internal audit, weak property management, weak cash control and delays in monthly bank reconciliation, high staff turnover primarily due to low salary structures, delays in budget notification, low financial audit coverage and audit backlogs in several regional states, inadequate performance audits, and inadequate training of staff. These findings in the sample of 25 *woredas* are fully corroborated by the OFAG continuous audits of over a 1000 *woredas* in the last five years. For FY2014, the key findings of continuous audits show that there are weaknesses across the board at the *woreda*-level regarding property management, long outstanding advances and payables, missing documentation, delays in bank reconciliation, misclassification of expenditure, weaknesses in managing cash, and weak internal controls on payments.

7. There are robust arrangements in place for tracking expenditures at the *woreda* level—which have been put in place under the PBS and will be continued and improved under this project. There are quarterly financial expenditure reports based on records that emanate from *woredas* and that are consolidated at the region and federal levels and submitted to the Bank. There will be continuous audit arrangements that will continue along with the annual financial audit. The normal Bank semi-annual supervision missions will also continue. Further, to mitigate the risks and weaknesses noted (such as the audit backlogs and internal control weaknesses), carefully selected actions as shown in program action plans and DLIs target these challenges.

8. The key findings of the *woreda*-level fiduciary assessment specific to the program, including the FM arrangements, are detailed as follows:

9. **Planning and budgeting, and budget execution and monitoring.** As indicated in the PEFA assessments, the GoE has a well-functioning planning and budgeting system. This is also corroborated in the field visits. All the visited regions prepared their plan and budget in line with this system. The annual plan and budget are prepared based on the regions' five years strategic plan (the GTP). Priority is given to basic service sectors to reduce poverty and to achieve the

MDGs. The planning process is participatory and the community is consulted in the process. In EFY2007, all the visited regions proclaimed and notified the annual budget to their respective sector bureaus and *woredas* in a timely manner. The timeliness of budget proclamation, notification, breaking down, and recording varied from *woreda* to *woreda*. Only 20 percent of the visited *woredas* completed the budget preparation within one month of the specified time and the others were delayed. On the positive side, allocation to basic services was higher in an increasing trend. Budget execution was also noted to be respectable at the national, regional, and *woreda* levels and this is evident as noted in the PEFA assessments as well as the regional and *woreda* visits. The budget control at the visited *woredas* was found to be satisfactory. All the visited *woredas* have maintained budget control ledgers to track expenditure. However, only 28 percent of the visited *woredas* were using the budget control module in the IBEX. The rest were using manual ledgers. Lack of training, inadequate computer hardware, network problem, and power problem were stated as reasons. Inconsistencies between the recorded and proclaimed budget balance were noted and discrepancies will distort the budget utilization rate. As such, care should be taken to check agreement of the recorded budget balance with the proclaimed one. Lessons from the PBS also substantiate that the block grant budget utilization for the basic services was reasonable and satisfactory.

10. **The program will use normal budget procedures of the GoE. These procedures reflect the fiscal decentralization structure of the government and the budgets are processed and approved at all levels.** Regional governments will receive project funds along with the government's portion as block grant subsidies which they will in turn allocate to *woredas* along with their own resources. The government's chart of account accommodates budgets and expenditures for this program. The annual budget will be included in the annual budget proclamations of the MoFED. In regard to budget monitoring aspects, the normal government system requires monthly reporting from lower to higher levels. In addition, a semi-annual interim financial reports sent to the DPs will also incorporate budget monitoring reports where actual performances will be compared with the budget and explanations will be provided for significant or major variances. Budget monitoring and control is an area of weakness observed in the PBS especially in the area of variance analysis and explanation of reasons for variances.

11. **Revenue.** The revenue collection capacity of the visited *woredas* was also satisfactory. In EFY2006, 40 percent of the visited *woredas* collected their own revenue over the budget, another 40 percent of them collected above 90 percent of the targeted revenue, and 20 percent of them collected below 90 percent. Of the visited *woredas* which collected above the budget, four *woredas* collected over 10 percent of the targeted revenue.

12. **Treasury management and fund flows.** The PEFA notes robust systems of treasury management and flow of funds, corroborated by field visits. At all the visited regions, sector bureaus use the Zero Balance Payment system, whereby payments are made from a zero balance account until the ceiling of payment is reached. The BoFEDs, based on the cash flow request of sector bureaus, will determine the ceiling of payments and order the Commercial Bank of Ethiopia to effect payments when requested by the bureaus until the ceiling is reached. At the end of the day, reimbursement is made to the zero balance account from the central treasury account and the balance becomes zero. The system enhances treasury management control.

13. **Woredas and zones use a single treasury system whereby one bank account is maintained for all budgetary institutions.** This practice improves the cash management system and saves resources and accountant time by reducing the number of unnecessary records and report production that is otherwise required. Except in one region, the BoFEDs in the seven regions transfer the monthly subsidy directly to *woredas*. In the one region, the BoFED transfers to the zones and the latter in turn transfer the monthly subsidy to *woredas*. The BoFEDs in all of the visited regions had fully received the annual subsidy from the MoFED for three years. Six of the visited regions in turn fully transferred the annual subsidy to their *woredas*. In the remaining two visited regions, transfers from the BoFEDs to *woredas* for EFY2005 and 2006 were not checked as their accounts were not up-to-date due to late closing. The fund is released in a timely manner from the MoFED to the visited BoFED and in turn to all the visited *woredas*. Lessons from the PBS program also note that there was smooth fund flows and no major issues were raised in terms of the timeliness of transfers from the MoFED to the regions and to the *woredas*.

14. **Funds flow and disbursement arrangements.** The IDA funds of the program will be channeled to the MoFED. Disbursement of program funds will be made from IDA twice a year only upon achievement of the DLIs. Funds will be deposited to the treasury account. However, the MoFED has insisted on maintaining a foreign currency account opened at the National Bank of Ethiopia (NBE) into which funds will be deposited. Upon achievement of the indicators, the MoFED will inform the Bank and provide evidence as per the verification protocols, as justification that results for the DLI have been met. In the case of a scalable DLI, the amount to be disbursed will be determined in accordance with the formula set forth in the Verification Protocol. A notification will be sent to the borrower to advise the amount to be disbursed against progress achieved toward the results of the scalable DLI. Disbursement requests will be submitted to the Bank using the Bank's standard disbursement forms signed by an authorized signatory. Details of the key disbursement issues will be spelt out in the Disbursement Letter. It is important to note that although PforR operations do not link disbursements to individual expenditure transactions, the aggregate disbursements under such operations should not exceed the total expenditures by the borrower under the program over its implementation period. If by program completion the IDA financing disbursed exceeds the total amount of the program expenditures, then the MoFED is required to refund the difference to the Bank. Once IDA resources are deposited to the treasury or the foreign currency account, the program can use it for transferring resources to the BoFEDs as part of the block grant. At the regional level, the BoFEDs will also disburse resources to the WoFEDs.

15. **Accounting and reporting.** The PEFA acknowledges that the GoE has a robust accounting system which enables recording transactions, controlling, and reporting. The IBEX 1.3 is in use to record transactions and produce various reports. Currently the system rolled out to all the BoFEDs across the country, IBEX has also been rolled out to most of the *woredas*. However, the PEFA notes some challenges especially on linkages between IBEX, BoFED, and sector offices (despite good progress on rollout), delays in clearing suspense accounts and advances, and failures in reporting commitments. Capacity constraints caused by high staff turnover rates were a major cause for the challenges in accounting and reporting. During visits to the *woredas*, at 88 percent of the visited regions, the BoFEDs prepared checklists to test the quality of *woredas* and sector bureaus' reports when submitted. This practice improves the quality of reports. In two regions, *woredas* submit the monthly reports to their respective zones and the latter in turn submit them to the BoFEDs. *Woredas* in the rest of the six regions directly submit their monthly reports to the

BoFEDs. Except *woredas* connected to the network with the BoFEDs (only in one region), the rest submit the backup of the monthly reports on a CD-ROM. A delay was noted in submitting the monthly reports in the first quarter of EFY2007 by 68 percent of the visited *woredas*. Six out of the eight visited regions have closed the EFY2005 consolidated accounts. These regions were finalizing the closing of EFY2006 accounts during the assessment time (September–November 2014). The other two were in the process of closing EFY2005 consolidated accounts. The MoFED follow-up is required in the two regions to ensure timely closure of the consolidated accounts. At all visited *woredas*, the status of the PFM reforms that are being made (funded by PBS 3) was satisfactory.

16. **Zones and *woredas* use the pool system for FM activities.** In the pool system, treasury funds are managed through a single bank account. All accounting and reporting work is done at a single location (WoFED). The system has improved the efficiency and effectiveness of reporting, the use of scarce manpower, service delivery, cash management, and has tightened control across sectors. At visited *woredas*, interviewed representatives of sector offices disclosed their satisfaction on the services provided by the pool while about half of them have complained on sufficiency of the number of finance officers. The other staff at the visited *woredas*' finance pool have complained about the workload for which they believe they are not sufficiently compensated by the current payments. The pool staffing structure has not been revised for a long time in spite of the annual treasury budget and donor-funded projects increasing year-on-year. The pool directive is currently being customized and a need assessment for hardware and furniture has been conducted following the recent pool study recommendations.

17. **Accounting arrangements** for this program. This program will be governed by the GoE's accounting policies and procedures. The IBEX will be largely used and where IBEX is not installed, a manual accounting system will be used. As noted above, the chart of accounts will accommodate the expenditures of the activities. Each implementing entity will account for expenditures incurred at their entity, retain documentation, and submit financial reports to the next level (zone/BoFED/MoFED) for consolidation. The COPCU is staffed with adequate staff to oversee the FM functions of the project at the federal level. An FM team involving about seven staff is currently in place at the COPCU and will also be responsible for this program under PforR modality. Responsibility and roles will be reviewed and updated as appropriate. Regional channel one coordinators are recruited to strengthen regional follow-ups.

18. **Financial reporting arrangements.** The MoFED will submit semi-annual consolidated unaudited interim financial reports prepared on the basis of actual expenditures for the program, within 90 days of the specified period. These reports will be produced from the existing government accounting system. Annual financial statements will also be prepared for the audit and will use a similar format as the semi-annual reports. Lessons from the PBS note that the timeliness of reports have significantly improved. However, there were challenges in the quality of the reports.

19. **Internal control and internal audit.** For non-salary payments, the FM system at the entities visited has sufficient controls to ensure authorization, recording, and custody controls. There was satisfactory separation of duties in the payments approval cycle in most of the visited entities. Payments were properly initiated, reviewed, and approved by authorized officers. Bank accounts at the visited *woredas* are operated jointly by two of the available officers, in line with

the cash administration directive of the regions. It has been noted that the finance, and procurement and property administration units were not separated in about 76 percent of the *woredas* visited. This is expected to be improved when implementation of the provisions of the pool service giving and organization manual is finalized. It was noted that 64 percent of the visited *woredas* conduct a cash count regularly, at least within a month, while the rest were not doing so. In addition, 31 percent of the *woredas* that conduct a cash count were not reconciling the count with records. In relation to advance balances, the IBEX is not capable of producing aging of advances and most *woredas* were not preparing aging analysis for management information and decision. Therefore, there is a risk for project monies that are advanced to remain uncollected. In regard to bank reconciliations, 20 percent of *woredas* visited were not preparing monthly bank reconciliation statements. In addition, preparations of bank reconciliation statements were not up-to-date in 64 percent of the *woredas* visited. The value and number of bank transactions could be significant and errors and irregularities could remain undetected or unrecovered. The PBS continuous audit reports report on these issues repeatedly as well for salary (payroll) transactions. It was noted that the payroll preparation and processing system has been assessed to be satisfactory. However, 72 percent of the *woredas* visited were using MS Excel spreadsheets to process payroll while the rest were using application software. Use of software could reduce the time needed to prepare payroll and reduce the chances of making errors.

20. **Property administration.** Weak property management control was noted in the field visits. Bin cards were not maintained by 60 percent of the *woredas* visited and they were not up to date in the remaining 40 percent of the *woredas* visited. The property administration officers were also responsible for stores as well as for tracking movement of store items and fixed assets in 32 percent of the *woredas* visited, while the property administration manual of the regions required the two responsibilities to be separated. *Woredas* visited did not maintain logbooks. They, however, have alternative control mechanisms over fuel, which include comparing the fuel usage rate of vehicles against the total distance covered by the motor vehicles. While 12 percent of the *woredas* visited use application software for fixed asset control, it was noted that 84 percent of the *woredas* visited either did not maintain an asset register or the registers maintained were incomplete; in that for some assets they did not contain information such as cost, source of fund, serial number, identification number, and date of purchase that facilitate control. During the assessment, it was also noted that there was no practice of comparing count of assets against the related records. The findings from the field visit is similar to the issues being raised in the PBS continuous audits and corroborates the findings of the PBS continuous audits that internal controls on property management are weak.

21. **Internal audit.** This is an area that is generally considered to be the weakest link in the PFM system. The PEFA as well as the lessons from the past and current PBS note that there are still challenges in this area of internal audit, culminating from structural, capacity and number, and other issues. In regard to the field visits, although all the visited *woredas* have internal audit plans, the coverage of the pool financial transaction by internal auditors was found to be unsatisfactory in about 60 percent of the visited *woredas*. The focus of the internal auditors of these visited places was primarily on entities that collect internal revenue in the *woreda* and most of the findings focused on identifying cash shortages. It was also noted that although audit findings are reported, documentary evidence of action taken on audit findings was not readily available. The action plan could serve as a tool for follow up and as evidence of implementation of audit findings. It has further been noted that there is a need to provide extensive capacity-building training to internal

auditors, including providing training on IBEX, so that they could audit the system and use risk-based auditing procedures. In addition, audit committees have been established in about 52 percent of the *woredas* visited to begin work in EFY2007. The regions visited have developed internal audit committee directives. This initiative should help in strengthening the internal audit function and implementation of audit findings.

22. **Internal control and internal auditing arrangements for the program.** The program will use government FM systems and procedures which are adequate to ensure that satisfactory internal controls are in place. Despite its limitations, it is envisaged that internal audit at all levels will include internal audit of this program in their annual program. Internal auditors recruited for the PBS at the MoFED and BoFEDs will support this program as well in following up on audit findings.

23. **External audit and oversight.** Continuous audit is carried out quarterly by the OFAG and auditors have finalized audits until the end of the fourth quarter of EFY2006. During EFY2006, 36 percent of *woredas* visited have been covered by continuous audit. Regions visited have assigned an internal auditor to follow up on continuous audit issues. Feedback of action taken on audit findings has been submitted by all regions visited to the MoFED for the fourth quarter of EFY2006. There is thus good progress with regard to the continuous audit. The responsibility for audit of budgetary institutions in the regions visited rests with the regional ORAGs. Financial audit coverage of the ORAGs is improving and, on average, it has reached about 50 percent of auditable entities. They present annual audit reports to their respective regional councils and all have presented this report during EFY2006 covering audits of accounts of EFY2004, 2005, or 2006. Regarding audit of accounts of *woredas*, the ORAGs have finalized audit of accounts for EFY2004, 2005, and 2006 on 12, 64, and 12 percent of the visited *woredas*, respectively. Auditors at *woredas* visited were not conducting a performance audit and 25 percent of the ORAGs visited have not started to conduct a performance audit. The coverage of the rest of the ORAGS visited has been assessed to be low, mainly due to budget constraints and lack of expertise in the required field. During EFY2006, on average, about seven budgetary institutions were covered in the performance audit by 75 percent of the remaining regions visited. Regarding audit of the consolidated account, delay has been noted in finalizing the audit of the consolidated account in three (about 40 percent) of the regions visited.

24. Regions and *woredas* visited have Budget and Finance Standing Committees to have oversight function on financial activities of the respective places. The assessment has indicated the need to provide adequate training to the members of the *woreda* committees to effectively discharge their responsibilities.

25. **Auditing arrangements of the program.** The 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 program will be submitted to the Bank and other DPs within six months of the end of the government fiscal year. The Bank in accordance with its Access to Information policy will request for public

disclosure of the audit report. The audit will be carried out by an auditor²² acceptable to the Bank. The auditors will be appointed within six months of effectiveness. The auditor will express an opinion on the program financial statements and will also issue a management letter highlighting internal control, compliance, and other weaknesses. There will be continuous (interim) audit arrangements for the program which will be continued by the OFAG. Reports (summary of findings) of the continuous audit will be submitted, on a quarterly basis, to IDA and other DPs within 60 days of the end of each 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 mechanisms to follow up on the findings of the continuous audit reports by the government, the Bank, and other DPs.

26. **Transparency and accountability.** Focal persons for the FTA are available at the regional level to follow the FTA activities in *woredas* and the region itself. Disclosures are made in the working languages of the regions. The working language, however, may not be the local language for regions like the SNNPR, Benishangul-Gumuz, and Gambella. Various mechanisms are used to disclose information, including notice boards, post cards, calendars, mini-media and radio programs, and LCD and projectors. Each of the visited *woredas* currently has more than two notice boards that were erected in the WoFED compound and outside where large numbers of people could easily see them. The WoFEDs disclose budget information immediately upon approval by the *woreda* council. In addition, disclosure of approved budget, actual expenditures incurred to date, and remaining budget is made quarterly. Further, budget literacy training is being given to the communities. At the time of visit, the visited regions were not disclosing information on actual expenditures on websites and also 75 percent of the regions visited were not disclosing budget declaration on websites. In addition, disclosure of audit information has not yet been started in all *woredas* visited and 90 percent of the ORAGs visited do not post annual audit reports presented to the regional council on websites and those ORAGs that post disclosed out of date reports. This risk is classified as Substantial.

27. **Staffing and infrastructure.** Information gathered from the visited entities on training indicated that there was continuous training given to officers, including on IBEX, property management, accounting, audit, and planning and budgeting. Budget literacy training was also given to the community. Including trainings given by the BoFEDs to *woreda* staff, about 15,513 officers received training on the above subjects during EFY2006. However, in view of the capacity and indication of staff of the visited entities, training given has been assessed to be inadequate. Staff have noted their low salary scale compared to their workload. Absence of a provident fund or pension scheme for contractual employees who are providing support has also been forwarded as another challenge on reform implementation. In addition, while testing whether structures were complete, there were vacant posts in all the visited entities. Vacant positions compared to the structure were 17 percent at the BoFEDs, 22 percent at *woredas*, 12 percent at zones, and 31 percent at the ORAGs visited. Major shortfalls were found at the planning and budgeting, and internal audit units. Existence of vacant posts may result in higher workload on the existing

²² According to the Ethiopian constitution, the OFAG is responsible for auditing all the financial transactions of the federal government as well as subsidies to the regions. The 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.

employees and their dissatisfaction, which in turn brings the risk of reduced quality of work and timely reporting.

28. The staff turnover situation in most of the entities visited was modest. The average turnover over a three year period from EFY2004–2006 compared to the actual number of currently existing staff at the BoFEDs, WoFEDs, ORAGs, and ZOFEDs visited were about 14, 15, 10, and 9 percent, respectively. Turnover in one of the visited *woredas* was exceptionally high at 92 percent. Excluding this *woreda*, the average staff turnover of the visited *woredas* was around 8 percent. It was further tried to gather information on qualification and work experience of staff of the visited public bodies. A majority of the staff of the BoFEDs (69 percent), ORAGs (86 percent), and ZOFEDs (50 percent) were degree holders while majority of officers at the visited *woredas* (51 percent) were diploma holders. A majority of the staff of the visited entities (61 percent at the BoFEDs, 80 percent at the ZOFEDs, 62 percent at the WoFEDs, and 46 percent at the ORAGs) have work experience of more than 5 years while 20 percent of the WoFED, 14 percent of the ZOFED, 28 percent of the BoFED, and 33 percent of the ORAG employees were in office for less than two years. The facility assessment showed that there were deficits in basic facilities.

29. Based on the above, the FM risk assessed for this operation is classified as Substantial. Many of these issues are being addressed through the EMCP of the MoFED that is partly funded through the PBS 3 project. In addition, several of these challenges will be addressed by the program action plans as part of this program (see Annex 8). Furthermore, a key DLI discussed and agreed with the government will be implemented that is intended to institute an annual benchmarking exercise for 1000 *woredas*, systematically showing the status of the PFM indicators. This DLI will complement all the other ongoing reform activities and help guide the focus of the PFM reform program going forward.

PROCUREMENT

30. Project finance will be channeled to the local level through the federal and regional block grant systems with the objective to improve Shared Prosperity through Equitable Services and strengthen the accountability system at a decentralized level. Improving access to basic services necessitates acquiring basic service inputs for services such as water supply, schools, health posts, agricultural inputs, and roads through a procurement process at the decentralized level. Therefore, it is important to understand the procurement expenditure profile at *woredas* and its trends in the main basic service sectors, and gaps in the procurement system when acquiring these needs through procurement.

31. A procurement system assessment was carried out as part of the Integrated Fiduciary Assessment with the objectives of identifying (a) procurable expenditure framework; (b) rules and procedures applicable to the implementation of the program; (c) capacity and performance of implementing agencies to support the PDO; and (d) risks and associated mitigation measures associated with the program and its implementing agencies. As the program will finance basic service delivery at the *woreda* level, the assessment was focused at this level.

Procurement Expenditure

32. *Woredas'* procurement expenditure is increasing over the years at an average annual rate of 30 percent. The average share of procurement against budget has reached around 20 percent

during FY2013. Procurement expenditure in the five basic sectors is showing consistent annual increase. Around 50 percent of total procurement expenditure is dedicated to the five basic sectors. *Woredas* in SNNPR, Tigray, and Somali have high procurement expenditure when compared to other regions. Particularly, the data on Somali's *woredas* indicates capital projects expenditure has been consistently above 30 percent of the total budget for the past four years. On the other hand, Gambella's *woredas* have the lowest share of procurement expenditure against budget—around 5 percent of the budget. The average procurement expenditure amount during FY2012 for 74 visited *woredas* was around ETB 8 million. Data obtained from 27 *woredas* indicate the average during FY2013 was around ETB 13 million. The conclusion is that the procurement function's contribution to provision of basic services is increasing and will have direct impact in meeting the PDO of improving access to the basic services at the decentralized level.

33. The IBEX at *woredas* register procurement expenditure in specific categories. Based on data extracted from IBEX, the works category (buildings, roads, and water wells) takes the lion's share of procurement expenditure; 66, 49, and 70 percent of total procurement expenditure in sampled *woredas* at Tigray, Oromia, and Somali, respectively. Office supplies and consumables, under the goods category, indicate a mere 3 percent share in sampled Oromia and Tigray *woredas*. Also, furniture and IT equipment indicate a low percentage of around 6 percent for the same *woredas*. This indicates that more attention should be given to works procurement in areas of organization, staffing, procedure, and capacity building.

Legal Framework and Public Procurement Regulatory Bodies

34. All nine regional states and two city administrations have enacted their procurement proclamations based on the Federal Procurement Agency template. All have established procurement regulatory units, though at varying degrees of independence. The regulatory units have in turn issued their respective procurement directives. These documents govern the procurement implementation at all levels of the regional structure, including *woredas*. The regional proclamations and directives follow the prototype of the federal proclamations which were prepared based on the United Nations Commission on International Trade (UNICTRAL) Model procurement law. The proclamations establish procurement oversight responsibility and outline the procurement organizational structure, procurement methods and procedures, and complaint handling procedure.

35. The regional regulatory units are mandated to take procurement oversight responsibility for the region, including *woredas*. The main functions of the regulatory bodies are (a) to prepare and disseminate the regional procurement proclamation and directive and procurement-related guidelines to regional bureaus and *woredas*; (b) to carry out a regional procurement audit to ensure procurement implementation compliance against procurement directive; (c) to monitor procurement activities and report on procurement performance; (d) to provide technical support including procurement training; and (e) to handle procurement-related complaints. In Amhara, Afar, Benishangul-Gumuz, Tigray, Oromia, and Somali these bodies are organized as core processes under the BoFED, while in SNNPR and Gambella the regulatory bodies are agencies. All regulatory units have disseminated their respective directives to *woredas*, but distribution of other documents like complete standard bidding documents (SBDs) and templates is not widespread. It is also noted that the SBDs that are distributed at some *woredas* are not complete and appropriate.

36. In addition to the regional proclamations and directives, procurement at the *woreda* level is governed by the Pool Manual which provides the mandate and procedures for the WoFEDs to consolidate requirements at the local level and procure in bulk through competitive methods. The Pool Manual was recently revised and disseminated to the regions. The assessment has noted that the application of the Pool Manual is uneven. In response to different assessments and recommendations to address *woreda*-level specific needs and improve the *woreda* procurement system, the government has initiated an activity to prepare and provide simplified procurement directives and procedures that will be applicable at the *woreda* level. To this effect, a consultant was hired to undertake *woreda* procurement gap analysis and prepare simplified directives and procedures; the study is currently underway.

Functions of Regional Regulatory Bodies

37. Regional regulatory bodies have to discharge a wide range of responsibilities that require adequate capacity and resource. Most regulatory bodies do not have a dedicated and separate annual budget to support yearly operations; rather they depend on recurrent budget shares as one of the core processes of the respective BoFED. Only SNNPR, Gambella, and Tigray have dedicated budgets that they can plan and use, though the amounts are not adequate to fulfill their responsibilities. As noted above, independence of most units is undermined by the way they are organized. Despite limitations, however, most have started their function by distributing regional proclamations and directives to procuring entities under their respective regions.

38. All regulatory bodies actively provide short duration awareness trainings to implementing agencies. The durations for the trainings range from a minimum of one day to a maximum of five days. The number of days allocated for procurement training is not enough to adequately train the procurement personnel. Most staff who participated in the trainings mentioned that the training time is too short and hence not adequate to address their needs. In addition, about 70 percent of the visited *woredas*' procurement personnel have never attended procurement training since their employment. Out of those procurement personnel who have never participated in any procurement training, 74 percent are new to procurement or have been employed recently. There is high demand for procurement training and this demand needs to be met through well-structured training programs.

39. With the exception of Somali, all regulatory bodies have started undertaking procurement audits, albeit with small coverage, considering that their mandate covers all sector bureaus and *woreda* administrations. Amhara has covered a total of 23 procuring entities, which account for about 1.56 percent of the total entities, over a period of two years. Afar has audited only one procuring entity so far. Afar's unique case is that procuring entities do not give recognition to the regulatory body and are not cooperating to receive procurement auditors. The SNNPR has audited 106 entities since 2012 which account for 8.4 percent of entities. Oromia audited 35 entities which account for 9 percent. Gambella audited 13 entities accounting for 8 percent. Somali has not done any audit so far.

40. All regulatory bodies did not yet start maintenance of procurement data and monitoring of procurement performance which is one of their core mandates. They do not have information regarding the level of procurement activity and expenditure within their respective regions. Information regarding volume of procurement by sector and major spenders, number of contracts,

most-used procurement methods, time taken to process procurements, and effectiveness of contracts are critical for regulatory bodies to discharge their function as well as to properly advise regional administrations. The assessment considers that it is high time regulatory bodies commence this function.

Organization of Procurement at Woredas

41. Each *woreda* has a responsible unit for procurement implementation. In *woredas*, the procurement process is centralized at the Finance and Development Office with a mandate to procure for other budgetary institutions. The organization of the procurement units is governed by the Pool Manual. But not all *woredas* have organized the unit as per the requirement of the Pool Manual. The manual instructs the procurement unit to be established as the 'Procurement and Property Administration Process' within the *woredas*' Finance and Economic Development Offices. While most *woredas* have established the unit as a Procurement and Property Administration Process with dedicated responsibility to deal only with procurement, other *woredas* have established it under a Finance and Procurement Administration Process and the units still discharge mixed accounting, disbursement, and procurement responsibility, which is burdensome for the staff. The assessment recognizes that the visit period was a transition time for most *woredas* to reorganize existing units as per the recent direction of the Pool Manual.

42. The *woreda* procurement units provide procurement service to an average of 23 sector offices located at *woredas*. Most *woreda* procurement units handle all goods procurement requirements of sector offices that include health, education, agriculture, water, and roads. Though the procurement units are mandated to handle works procurements, not all *woredas* are given the works procurement responsibility. For example, only 36 percent of visited *woredas* handle all works procurement in their respective *woreda*. Depending on threshold and complexity, sectors assign works procurement responsibility to sector bureaus at the region level. Oromia has a special arrangement whereby works procurement processes are handled by a committee established at the *woreda* level, chaired by a deputy *woreda* administrator. In Tigray, capital projects are handled by the *woreda*'s construction, road, and transportation project office. This indicates that the pool system established at the *woreda* level is prepared based on consideration given for good procurement. Given the background that *woreda* procurement expenditure is increasing over time, it is inevitable that the demand for works contracts for improving basic services will expand. Therefore, there is a need to clarify the role of *woreda* procurement units in dealing with works contracts and address the associated technical and contract management capacity.

Procedure, Process, Practice, and Capacity

43. **Procurement planning.** Since the *woreda* procurement units handle procurement demands of other sector offices, it is expected that the sectors' requests are submitted regularly and early. The assessment notes that most *woreda* units receive the sector requests either annually or biannually. However, the requests from sectors mostly include goods and most miss the works demands. Few have standard forms and procedures for receiving requests. Few *woredas* consolidate all requests from sectors and prepare one plan. The units, however, endeavor to consolidate similar requests and purchase.

44. The most frequently used procurement method at the *woreda* level is shopping. When the estimate is high and above the threshold, use of national competitive bidding is mandatory.

However, instead of consolidating requests and going for the open bid method, most prefer shopping by packaging items to fall under the shopping threshold. For instance, in one of the visited *woredas* in Tigray, of the total 36 procurement processes 27 were conducted through the shopping method. *Woredas* also frequently apply the so-called local competitive bidding that is not covered in the legal framework. Hence, the procedure as well as when and how to use local competitive bidding is not formalized. Use of direct contracting is also widely applied. The international competitive bidding method is not yet observed in any *woreda*, which is not surprising given that a single contract at the *woreda* level is unlikely to reach the international competitive bidding threshold. Though there is lack of data in most *woredas*, the maximum contract amount observed by the assessment is around ETB 40 million. Selection of consultants is also not observed at the *woreda* level. Consultancy selection, when required, is usually handled from the relevant sector bureaus at the region level. It is expected that the simplified procurement directive and procedure will address the observed gaps in application of the different procurement methods.

45. **Bidding document.** Procurement of goods, works, or services using the national competitive bidding method is not supported with SBDs. Almost all of the visited *woredas* do not use the SBD of the respective region while procuring goods; more than 50 percent of the visited *woredas* do not use the SBD for works. Most of the time, the bidding document prepared by *woredas* lack basic information required to implement the procurement process properly. For instance, it does not have complete instructions to bidders, a bid data sheet, evaluation and qualification criteria, and general and special condition of contracts. Bidders, in most of the cases, are not aware of the conditions of the contract during the bidding process. Preparation of bidding documents and using standardized documents is an area where *woredas* need support. Since the SBDs issued by the federal procurement agency and the regions might be cumbersome for most of the procurement conducted at the *woreda* level, it will be appropriate to equip *woredas* with SBDs relevant to the size and complexity of their procurement as well as to the different procurement methods applicable at the *woreda* level.

46. **Evaluation.** Evaluation is done by the bid evaluation committee of the respective *woreda*. Generally, the evaluation committee comprises members from the procurement case team and sometimes includes technical experts from sector offices. For contracts that did not have a proper bidding document, evaluation criteria are set during evaluation. For contracts that have used a proper bidding document, adhering to the evaluation and qualification criteria appears to be a challenge most of the time. Cases are observed where evaluation and qualification criteria were modified to suit a specific purpose. Moreover, the two-envelope system and merit point evaluation are widely applied. Financial proposals of bidders who did not score the minimum points are returned unopened. Technical evaluation is usually on qualification requirement for works contracts. Such a system has risk related to transparency of the process and has the risk of applying subjective scores leading to an unfair competitive environment. When doing evaluation of goods, determining quality compliance of goods is a challenge. It is observed that there is no standard evaluation format to be used at the *woreda* level. All *woredas* use different formats which are below the standard. Extracting information from the evaluation reports is time consuming as the formats are not standardized. It is expected that the simplified directive and procedure will address this gap.

47. **Award.** The evaluation committee submits the bid evaluation report and award recommendation to the Procurement Endorsing Committee (PEC), a committee established for approval of contract awards. Evaluation and award time differs from *woreda* to *woreda*—it takes three to nine weeks to complete evaluation and award of a works contract and two to four weeks to complete evaluation and award of a goods contract. There is a defined threshold for award approval at all visited *woredas*. All contracts categorized above the shopping threshold are subject to the PEC’s approval. For works, the PEC approves contracts priced ETB 100,000 or more; for goods and services, the PEC approves contracts priced above ETB 75,000 and ETB 30,000, respectively. For better checks and balances in the system, it is advisable that award approval be segregated from the evaluator.

48. **Contract Management.** Contracts are signed by the *woreda* procurement units when goods are procured. However, when works are procured the practice varies. In the Amhara, Benishangul-Gumuz, Afar, and SNNPR *woredas*, works contracts are signed by sector offices. In most Oromia and Gambella *woredas*, works contracts are signed by the procurement units. In Tigray, neither the sector offices nor the procurement units sign works contracts but a construction office signs them. Correspondingly, contract management for goods contracts is the procurement units’ responsibility while for works contracts the responsibility falls mostly on sector offices, except for Oromia and Tigray. In Oromia, works contracts are managed by the *woreda* project committee that includes the sector representatives. In Tigray, capital projects contracts are managed by the *woreda* construction, road, and transportation project office. Continuous quality supervision of construction contracts appears to be a challenge as *woredas* do not have the technical experts. Construction sites are supervised by technical experts sent from either zone or region offices at the time when payment certificates are ready. *Woreda* finance offices effect payments based on payment requests certified by such supervisors. It is noted that contract management of works contracts is the biggest challenge at *woredas*.

49. **Facilities for Procurement Function.** While carrying out these activities the assessment notes that the basic facilities are not provided for the units. Vehicles are not assigned to the procurement officers when travelling to do shopping and officers use public transport to do the job. Not all *woredas* allocate office space for each procurement staff. Offices spaces are allocated for each procurement staff at less than 50 percent of the visited *woredas*. At more than half of the visited *woredas*, tables and chairs are not allocated for procurement staff. Computers and printers are available for procurement staff only at less than 20 percent of the visited *woredas*. Only at 20 percent of the visited *woredas* is office space made available for procurement record keeping. Unless basic facilities like office space, chairs, computers, and printers are available, the procurement staff cannot prepare the required bidding documents, evaluation reports, and contract agreements. Recognition should be given to the procurement function and the basic required facilities should be provided.

Conclusion and Main Issues

50. Procurement expenditure at the *woreda* level is increasing at an average annual rate of around 30 percent. Average share of procurement expenditure against budget has reached 20 percent. The share of the five basic services sectors constitutes 50 percent of the total procurement expenditure. Hence procurement has a role in meeting the PDO. On average, the volume of procurable expenditure in a *woreda* is ETB 13 million, recording a maximum individual contract

amount of ETB 40 million. In general, *woredas* record low value contracts and it is not expected that there will be any high value contracts falling within the Operations Procurement Review Committee threshold during the entire life of the program.

51. There is an established legal and institutional framework which is in use for management of procurement activities. In most *woredas*, the procurement function is organized under the property and procurement process owner responsible to the head of the *woreda*. Each *woreda* has a centralized procurement system (pool system) serving all sectors at the *woreda*. Staff numbers and skills are weak with around 45 percent of the vacancies not filled. The most widely used method of procurement is shopping.

52. Based on the assessment, the procurement system at the *woreda* level is adequate, relative to the volume and value of procurement envisaged under the program, and would provide reasonable assurance that the project will achieve intended results. Given the procurement budget share, small value contracts encountered, and discrete and many implementing agencies with own control, the procurement risk is rated Substantial. To further strengthen the reliability of the system, a number of measures have been identified for implementation as part of the program. The measures are focused on strengthening the control and integrity of the system so as to narrow the gap between proclamation and practice through enforcement and hands-on support to the *woredas*.

53. The assessment identified the following main issues in the procurement system in relation to program performance: (a) regional regulatory bodies do not have an adequate and dedicated budget that they can plan and use to be able to discharge their responsibilities properly. The organizations of most regulatory bodies lack independence; (b) trainings to *woredas* procurement staff do not address specific needs and are not adequate in time and content to enable staff to gain capacity; (c) all regulatory bodies did not yet start activities toward monitoring of procurement performance and maintenance of procurement data which is one of their core mandates; (d) the coverage of the procurement audit by regional regulatory bodies is low. In addition, the quality and depth of the audits requires strengthening. Audit reports are not reported to policy makers; (e) there are *woredas* that did not yet organize the procurement function separate from the accounting and disbursement function as the Procurement and Property Administration Process as directed by the Pool Manual; (f) works constitute the major share of procurement expenditure at *woredas*—as high as 70 percent in some *woredas*—while goods categories such as office supplies and consumables, and IT equipment and furniture constitute a low share—3 percent and 6 percent, respectively, in sampled *woredas*. But the established pool system gives more weight to goods procurement. There is a need to clarify the role of *woreda* procurement units in dealing with works contracts and address the associated technical and contract management capacity. Despite works constituting a lion's share of procurement expenditure, trainings and capacity building do not give attention to works procurement and contract management; (g) there are gaps in procurement planning, bidding document preparation, evaluation, contract award, and contract management at the *woreda* level that need to be addressed; (h) the *woreda* procurement function is severely constrained with inadequate provision of basic facilities; and (i) there is a need to prepare and disseminate *woreda*-specific procurement directives, procedures, and documents.

54. To address the identified issues and improve the procurement system that will have an impact on the PDO, the following recommendations were made: (a) the project will include a DLI that will lead to a much more improved procurement system. The recommended DLI will have the

objective of strengthening the function of regional regulatory bodies. As a seed to vitalize the function of regulatory bodies, it is recommended that regional regulatory bodies adopt and customize procurement performance indicators, commence data collection activities, and report on procurement performance of three basic sectors (agriculture, health, and education) for the regional states Oromia, Amhara, SNNPR, and Tigray. Also, as part of the DLI, regional regulatory bodies will reach procurement audit coverage of 25 percent by May 2017 and the audit report will be presented to the regional cabinet or parliament; regional BoFEDs will provide adequate resources to regional regulatory bodies to enable them to carry out their function as per proclamation (budget and transport); (b) the regional regulatory bodies will maintain a minimum of 15 percent *woreda* procurement audit coverage throughout the project period as a fiduciary oversight mechanism for the project activities; (c) the FPPPAA will provide training on procurement audits to staff of the regional regulatory bodies. Simplified documents that specify minimum requirements when conducting procurement audits for each procurement method will be prepared and made available to staff; and (d) the FPPPAA will ensure that the consultancy service for the *woreda* Procurement Gap Identification and Preparation of Simplified Directive and Procedure will be finalized successfully, and the regional regulatory bodies will customize, roll out, and implement the simplified directives and procedures in the *woredas*. Structured and adequately timed trainings will be organized and delivered to *woreda* procurement staff based on the directive and procedures. This is expected to address the various gaps identified in the *woreda* procurement system.

FRAUD AND CORRUPTION

55. There is a robust legal framework for addressing F&C in Ethiopia. The government has established the FEACC with a mandate to expand and promote ethics and anticorruption education, prevent corruption (through review of working procedures and systems), and investigate and prosecute alleged corruption offences since 2001.²³ The government has also declared that it follows a zero-tolerance policy toward corruption. The FEACC has received political support at the highest level in the country. Since 2007, all the nine regional governments have established their own REACCs as per the regional laws. The FEACC is responsible for coordinating anticorruption efforts across regions, including in urban and local governance, and preparing a national report on anticorruption efforts across the country.

56. **Complaint-Handling Mechanisms** are in place at all levels of governments as per the requirement of the national proclamations (proclamation 433/2005 and 434/2005) and institutional-level operational guidelines. These proclamations clearly define the procedures to follow under corruption offences as well as for administrative complaints related to the program.

57. **Actions for alignment with the Bank's anticorruption guidelines for PforR operation, sharing information on F&C allegations, and reporting arrangement.** The government will be responsible for complying with the Bank's anticorruption guidelines for the program (anticorruption guidelines dated February 2012). The government agreed to implement the program in accordance with the anticorruption guidelines applicable to PforR operations. In line with the anticorruption guidelines, the government (through the FEACC) will share with the Bank

²³ Proclamation No. 433/2005 and Regulation No. 144/2008 provides for the role, powers, duties, and responsibilities of the FEACC.

all information on F&C allegations, investigations, and actions taken on the program, including on procurement. Consequently, information on F&C and complaints regarding the program will be collected at the *woreda* and regional level and shared with the FEACC, who will in turn share the information with the Bank.

58. The FEACC gets monthly reports on F&C from the REACCs, and the REACCs get reports mainly from ethics and anticorruption officers/focal persons assigned at *woreda* administration, zone, and region levels across agencies of finance and economic development and offices of basic sectors and other relevant activities. However, in the case of the ESPES PforR program, the FEACC will compile and share information on F&C with the Bank every six months. The details of this reporting will include the types of allegations and the status of actions taken, disaggregated by sector agencies. A template for recording and sharing the information with the Bank will be provided to the FEACC.

59. **Sharing of debarment list of firms and individuals.** The information on the list of debarred and suspended firms is available on Client Connections and on the Bank's wESPESite. Companies and individuals debarred by the Bank and the FPPRAA will be posted and updated regularly on the MoFED wESPESite and advertised publicly by regional states and *woreda* administrations. The MoFED will share this information with all regional states and *woreda* administrations in the program, instructing them to comply by appending the debarment list to the annual transfer of grant notification which will be made public—and go to all projects. In addition the government also agreed that they will include some disclosure measures in bidding documents for works, goods, and services to be financed under the program, including insisting that the firms and/or individuals declare that they have not been debarred or suspended and/or do not have any links with a debarred entity or individual.

60. **Investigation of F&C Allegations.** The Bank's INT has a good working relationship with the FEACC as part of an MOU signed between them on October 3, 2011. The MOU provides a framework for cooperation and sharing of information, where appropriate, taking into consideration the legal and policy framework and mandate of each organization. Thus far, the working relationship between the INT and FEACC, based on the MOU, has been cooperative and productive. More specifically, the terms of the cooperation include the following: (a) to provide each other (spontaneously or upon request) with information of relevance for detection, substantiation, and prevention of F&C in connection with conduct which may constitute a serious crime under national legislation or a sanctionable offence under Bank policies; (b) to undertake joint activities and collaborate, when appropriate, in each party's efforts to detect, substantiate, and prevent F&C; (c) to engage each other in relevant activities which they organize and undertake, and which may be of common interest in the execution of their mandates; (d) to provide a mechanism for the reciprocal referral of inquiries and recommendations pertaining to investigations and actions residing within the mandate and jurisdiction of the respective parties; (e) to designate contact points to facilitate and expedite the effective and confidential transmission of information exchanged; and (f) to meet periodically to identify possible priority areas for cooperation that present common strategic or operational objectives. The MOU will, therefore, make it possible for INT to collaborate with the FEACC on any case of suspected F&C in the program.

Key Issues at the Woreda Level

61. **F&C.** The existence of legal and institutional arrangements for the control of F&C is essential in safeguarding the ESPES PforR project, mitigating risks, and assuring the utilization of the project fund for the intended results. In this regard, the government has a robust legal framework and arrangement for prevention, control, and reporting of a wide range of F&C allegations through the FEACC and REACCs. This arrangement, however, needs to be strengthened at the *woreda* level by placement of adequate number of ethics and anticorruption officers in the WoFEDs and basic sector offices and building the respective capacity in systematic recording and reporting of F&C related to the project. On a positive note, the assessment generally revealed that the federal government and all the nine regional states have established ethics and anticorruption commissions as per the federal and region-specific proclamation—FEACC and REACCs—as independent and umbrella functioning organs for the primary concern of controlling F&C. The FEACC has signed MOUs with the REACCs in April 2012 and established a closer relationship to carry out mutual cooperation activities, build capacities, and compile country-level reports on F&C that will be reported to the INT.

62. The REACCs are bestowed with a mandate to expand and promote ethics and anticorruption education, prevent corruption, and to investigate and prosecute alleged corruption offences. The determinations in controlling F&C can also be explained by the assignment of officers/focal representatives in some of the offices and enhancement of anticorruption alliances/movements. Accordingly, ethics and anticorruption officers were assigned in the four WoFEDs that were visited in SNNPR; and officers located in the WoFEDs serve cluster officers in Benishangul-Gumuz (accounting for 28 percent of the total *woredas*). In other regions, these officers were assigned in prioritized sector offices through various formations such as focal person or committee member. In Amhara and Oromia, the arrangement of the REACC involve the establishment of branch offices while in Afar the functioning is based through the delegation of police and justice. At the regional level, the REACCs in Oromia, Tigray, Gambella, SNNPR, Amhara, and Benishangul Gumuz regional states have the potential to organize F&C allegations data and issues disaggregated by *woreda* implementing agencies. The REACCs' performance, with the exception of Afar, has shown improvement from year to year displaying the functionality of the arrangements. The number of tips-offs has increased from year to year. The regional data collected for 2013/14 revealed that all the regions have together received about 5,931 tip-offs and investigated and/or prosecuted 1,665 (28 percent) cases; the large variation was attributed to the suggestion of non-relevant tip-offs that majorly were either administrative or beyond the mandates of the commissions. The conviction rate by the REACCs rose from 16 percent in 2011/12 to 90.9 percent in 2013/14.

63. There are, however, challenges. The structure for F&C at the *woreda* level requires strengthening. The proclamation at federal and regional levels has provisions for placing ethics officers in public institutions and government-owned enterprises at different levels. However, due to financial resource limitation, the officers were not in place as intended. Officers were only assigned in the WoFEDs of the SNNP regional state and in a few sector offices. In other entities, the REACCs were represented by staff with required expertise, working in addition to their regular duties. The F&C controlling and oversight officers at the *woreda* level lack the required skill. Such

a skill gap at the regional level was also explained by their capacity to carry out investigations. Recording, organizing, and reporting arrangements of incidents at the *woreda* level is poor. Sector offices at the *woreda* level have not yet detected and recorded any incidence or allegation of F&C in basic sector performances. Also, they have not reported F&C suspects to the REACC yet. Representations at the *woreda* level lack the capacity to systematically record, classify, and report complaints/grievances and F&C incidences, disaggregating by sector or issues. Awareness and engagement of the public to provide tip-offs through the system is vital. The public understands that the use of procedures on providing F&C tip-offs and the addressing mechanism is limited; disclosure and information sharing to the public on F&C activities and their impact at the *woreda* level is low. Checks and balances in the system exist but the system needs to build capacity and improve the horizontal relationship with the WoFEDs, BoFEDs, GRMs, and sector offices.

64. **Control of maladministration.** The key issue here is that a wide range of maladministration complaints were channeled and responded by grievance-handling bodies. The complaint-handling bodies though have a differing structural arrangement and have been instituted in all regional states having the mandate to handle and address any complaints, except such cases that are under the revenue authority, the ethics and anticorruption commission, and the general auditor; cases seen by the *kebele* social court, sharia court, and any other courts; and issues decided by the respective councils and the regional president. Grievance handling arrangement insight was furthered by instituting a decentralized process/office/focal person at both zonal and *woreda* level administration offices that oversee any complaints that cannot otherwise be treated by sector offices and other organs. Such an arrangement, as was explained and revealed by the data, was found to contribute to the checks and balances within the level. Beyond the *woreda*, the system utilizes the *kebele* managers at the *kebele* level as a primary complaint-handling focal unit. There is a centralized and decentralized arrangement for the control of a wide range of maladministration complaints that might arise in basic service delivery. At the regional level, grievance/complaint handling and appeal setups (GRM structure) have been established in six of the regional states, at cabinet level accountable to the president. Such institutional arrangements in Amhara and Benishangul Gumuz regional state are at a cabinet level and accountable to the council. The decentralized arrangements also exist at *woreda* and zonal levels. About 92 percent of *woredas* have such structural arrangements under the office of administration (as offices in Amhara, while as a support process in SNNP and Benishangul Gumuz regional states, as a process in Oromia and Tigray regional states, and as a focal person in Somali regional state). The manpower has been filled up to 75 percent. Beyond the formal structure such as the *kebele* manager, which constitutes the primary complaint-handling body, there are other informal bodies including dispute resolution in court, traditional leaders, and committees. Sector offices have their own internal control system. In Oromia regional state, sector offices have focal persons who function from the sideline and support the complaint-handling process in the administration despite low coverage in road and water sector offices. At different levels, complaints were received, reviewed, responded, and reported up to regional level despite the lack of systematic recording of sector-specific incidents and/or inconsistency in recording of data. The GRM has helped to respond to complaints and service delivery questions by citizens. The responsiveness rate of complaint-handling bodies is over 70 percent with exceptions in Afar and Gambella regional states.

65. Some of the challenges noted include the following. The GRM-implementing institutions at regional and *woreda* levels are not budgetary institutions and are resourced through the president/administration office. This influences their enforcement power. In the regional level of

the Afar regional state, the grievance/complaint handling and appeals setup is organized as a support unit under the president's office. In the Gambella regional state it is marginally within the office of the cabinet affairs. *Woreda* offices/processes under the administration were not staffed in accordance with the proposed structure). Also, the assigned focal persons look at the responsibility as a sideline activity. There is a need to at least fill the existing structure. The capacity of staff at the *woreda* level is inadequate. This was further explained by a weak database and data classification system, and reporting (not available and not disaggregated by sector). Staff at the *woreda* level also lack the capacity to systematically record, classify, and report complaints/grievances and incidences by sector. The regional and *woreda* complaint-handling bodies lack transport and logistics for implementation and research and follow-up, especially in wider areas and where centralized institutions receive complaints. The public understanding and use of procedures to complain on maladministration is limited; beneficiaries' knowledge and understanding on avenues to complain and its widespread use was limited. As a consequence, citizens were bypassing the *kebele* level and logging complaints at the *woreda*, zone, and region levels. Each region functions within its jurisdiction and there is no umbrella institution at the federal level that facilitates experience sharing and monitors effectiveness of the functioning of the complaint-handling system.

66. **Internal control working capacities pertinent to basic services assessed.** There is an inbuilt internal control system both at the regional and *woreda* levels that assists the control of F&C that can emanate in the process of implementation of programs and/or projects in the basic sectors. The pool system in the WoFEDs has contributed to the control of F&C. Internal auditors/audit committees have potential experience in identifying and reporting F&C allegations. In due course, there is a reporting arrangement between internal auditors at *woreda* and regional levels. The controlling mechanism of all the resources was strengthened by internal audits; especially by monthly checks/reviews of sector resources and expenditures. However, to track and control F&C allegations, the capacities as well as vertical and horizontal relationships of auditors with the concerned stakeholders need to be improved. In regard to control of payroll and non-payroll recurrent expenditure, the key issue in all visited *woredas* was to control the incidences of salary leakage through ghost workers or absenteeism. The procedure employed in *woredas* was almost similar where salary control practices involve review of the attendance sheet, submission of a validation letter, verification, and checking personnel and payroll record. Similarly, there were no significant distortions or incidence of F&C or deviation on utilization of non-payroll and recurrent expenditure. There were no ghost workers and salary payment for absenteeism was punishable. Each office prepares a monthly staff list and sends it with a signed and sealed cover letter to validate the payments for the month. The monthly attendance sheet is checked by the process owner and then by the human resources manager. Moreover, in most *woredas*, payments are made through the nearest commercial banks; the WoFEDs limit expenditure to approved budget, in per diem for field work, and for consumption of fuel and lubricants by enforcing a gauging system. However, the timely submission of the validated attendance sheet in some *woredas* where there are a large number of inaccessible *kebeles* and/or education and health institutions is challenging and exacerbated by the lack of transport facilities. As far as personnel management, recruitment, placement, and absenteeism are concerned, it was noted that placement is made as per a previously identified job specification/BSC. There are no staff members who perform other tasks outside the duty assigned for the sector office. In addition, staff absent for more than 10 days will be warned, face salary deduction, and may be dismissed. However, the database for personnel management in most civil service offices needs improvement.

67. **Woreda council structure and capacity in the oversight of expenditure.** Here the key issue is the *woreda* council Budget and Finance Standing Committee emerging as a pertinent oversight body for the control of expenditures and implementation of projects, including for the implementation of auditors' findings and recommendations. The committee strengthens the control mechanism on public finance but faces capacity limitation to discharge its mission. However, a *woreda* budgeting and finance standing committee has limited capacity to provide effective oversight, transparency, and accountability of the budget and expenditures, with some exceptions. The capacity of the Budget and Finance Standing Committee needs to be strengthened to implement auditors' findings and recommendations and perform regular review and follow up.

68. **FTA.** The budget and resource disclosure through the FTA process is contributing to transparency and accountability. The FTA practices have improved the public's understanding on transparency and accountability; assisted the community to demand their respective rights that consequently influenced resource transfer/withdrawal; and as a response to the budget allocation, enabled communities to mobilize local resources for undertaking development. The FTA templates have been posted in at least three of the service institutions in the six regional states. Standard notice boards have been placed in 45 percent of the *kebeles*. However, the FTA templates have to be improved and posted in the remaining *kebeles*.

69. **Social Accountability.** The exercise of implementation of SA tools through partner implementing agencies in pilot *woredas* and *kebeles* has contributed to maintaining the rights of citizens and eventually reducing maladministration; however, the implementation coverage of the SA initiative is limited. In the two pilot *woredas* that were visited as well as in the Gambella regional state, SA implementation was encouraging. Citizen engagement and public participation impact the decision-making process and this in turn helps reduce the risk of violating citizens' rights and responsiveness to service delivery, unfair treatment, climate of fear, and inequality, and enhances citizen interaction with the branches of government. As a challenge, it was noted that the SA initiative has limited coverage of *woredas*. In addition, institutionalization and linkages are the major issues of attention.

70. There are several initiatives underway in Ethiopia to strengthen the institutional arrangements for combatting F&C. Some of these initiatives are funded through the PBS and there are others that are funded through agencies such as the UNDP and DFID. Based on the assessment, the F&C risk is rated as Substantial. Under this project, a DLI and PAP have been identified to mitigate the challenges and risks identified. Further, this proposed program will be aligned to the Bank's anticorruption guidelines.

FIDUCIARY RISKS AND MITIGATION MEASURES

71. Based on the above reasons, the overall fiduciary risk assessed for this operation is classified as Substantial. Overall, the Fiduciary Assessment concludes that the examined program FM and procurement systems are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to principles of economy, efficiency, effectiveness, transparency, and accountability, and for safeguarding program assets once the proposed mitigation measures have been implemented. Appropriate systems to handle fiduciary risks, including effective complaint-handling mechanisms against F&C, have been agreed on and established. Risk mitigation measures for the identified risks have been discussed

and agreed with the government. The risk mitigation measures include the use of a DLI that will be provided in the Financing Agreement to support transparency aspects of the program. In addition, specific actions have been proposed as a PAP that will support the DLI and help improve efficiency and performance monitoring. Summary of risks, mitigation measures, and action plan are presented in table 5.1:

Summary of Risks and Mitigation Measures

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
PUBLIC FINANCIAL MANAGEMENT			
PEFA			
PEFA issues will not be addressed on time	Address the concerns raised by the PEFA and report the progress semiannually.	High	PAP
Planning and Budgeting			
Visited <i>woredas</i> delayed completing their budget approval and recording.	Provide capacity-building training to <i>woredas</i> officials and close follow up needed by the BoFEDs.	Moderate	PAP
Variances were not analyzed and written explanations were not provided on the quarterly reports submitted to the MoFED.	Quarterly reports include variance analysis and explanation for major variances.	Moderate	Being addressed in other projects
Visited <i>woredas</i> were using manual budget ledger control instead of the budget control module in the IBEX which is more time consuming and exposes the errors committed.	Provide training on the budget control module of the IBEX.	Moderate	PAP
The majority of visited <i>woredas</i> (about 88%) were using the IBEX in standalone configuration due to lack of network infrastructure. As a result, data is not updated timely in the BoFEDs' server. In addition, data integration problems can be created due to mapping differences and errors can be committed when	Expedite the action on connecting <i>woredas</i> and sector bureaus with the BoFEDs through the <i>woreda</i> network.	High	PAP

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
importing. This would affect the timeliness and quality of reports.			
Visited <i>woredas</i> have no sufficient (backup) IBEX operators. This would affect the timely recording of transactions when the available operators are not in office for various reasons.	Provide regular training on the IBEX to staff.	High	PAP
Visited <i>woredas</i> did not perform aging analysis for receivable balances for follow up purpose.	Provide training to accountants and follow up by the BoFEDs for the implementation.	Moderate	Being addressed in other projects
Two visited regions did not close and publish their consolidated account for EFY2005.	The MoFED provides support and follows up to close the accounts.	High	PAP
Majority of the visited regions have no strong supervision (monitoring) and support system for <i>woredas</i> to strengthen the PFM system.	Establish the system and benchmark <i>woredas</i> PFM performance.	High	DLI (Refer to DLI 8)
Internal Control			
Most of the visited <i>woredas</i> use Excel spreadsheets for processing payroll.	The BoFEDs should develop application software or enable these <i>woredas</i> to obtain software developed by others (may be through experience sharing, visits, and training).	Moderate	PAP
Weak cash control; absence of reconciling of cash count with records; not performing monthly bank reconciliation regularly.	Establish the system and benchmark <i>woredas</i> PFM performance. Acknowledge best performers and disclose weakest performers. Take action to address the weakest performers.	High	DLI (Refer to DLI 8)
There is weak property management control. The task of	Establish the system and benchmark <i>woredas</i> PFM	High	DLI (Refer to DLI 8)

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
<p>stock control and custody of items were not segregated. Bin cards were not maintained or were not up-to-date in some of the <i>woredas</i> visited. Most of the <i>woredas</i> visited either did not maintain an asset register or the registers maintained were incomplete.</p>	<p>performance. Acknowledge best performers and disclose weakest performers. Take action to address the weakest performers.</p> <p>Develop a property management application system to enhance the control. Experience can be shared from Tigray and Somali.</p>		PAP
<p>The coverage of pool transactions by internal auditors was poor at 60% of <i>woredas</i> visited. In addition, internal auditors of visited entities perform traditional audit focusing on expenditure verification rather than a system or risk-based audit. There is also no practice of documenting action taken on audit findings with an action plan.</p>	<p>Perform capacity assessments to identify challenges in strengthening the unit.</p>	High	Being addressed in other projects
External Audit			
<p>Delay in finalizing audit of consolidated account in about 40% of the visited regions has been noted.</p>	<p>The OFAG and MoFED should provide necessary support, including manpower to clear the backlog.</p>	High	PAP
<p>Inadequate performance audit coverage by the ORAGs of the visited regions. During EFY2006, performance audit was conducted on average on 7 budgetary institutions while 25% of the visited <i>woredas</i> did not conduct a performance audit.</p>	<p>The required support, including training, should be provided to increase performance audit coverage.</p>	High	PAP
<p>For effective oversight, capacity-building training needs to be</p>	<p>Provide training to <i>woredas</i> Budget and Finance Standing</p>	High	PAP

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
given to <i>woreda</i> Budget and Finance Standing Committees.	Committees to enable them to effectively discharge their responsibilities.		
Transparency			
<i>Woredas</i> visited were not disclosing information on audits. There is also no practice of disclosing annual audit reports on the wESPESite by most of the visited regions.	The MoFED and BoFEDs should conduct a study on how to disclose audit information to the public in <i>woredas</i> . The ORAGs visited should also build or activate their wESPESite and disclose up-to-date annual audit reports.	Moderate	Being addressed in other projects
None of the visited regions was disclosing budget execution information on their wESPESite. In addition, most of regions visited were not disclosing budget proclamations on the wESPESite.	The MoFED should provide support to build or activate websites for the BoFEDs and to conduct awareness creation training. The FTA focal person in the regions should then follow up on disclosure of such information to the public.	Moderate	Being addressed in other projects
Staffing & Facilities			
Staff at the visited <i>woredas</i> finance pool have complained on the work load for which they believe they are uncompensated by the current payments.	The pool structure needs to cope up with the increasing treasury, budget, and donor-funded projects. Arrange incentive mechanisms to recognize best performing staff.	High	PAP
Insufficient facilities noted at the visited <i>woredas</i> which could affect staff in discharging of their duties	Expedite provision of facilities based on the recent need assessment conducted.	High	PAP
Procurement			
Regional regulatory bodies do not fully discharge their function	Regional regulatory bodies will adopt and customize	High	DLI (Refer to DLI 9)

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
based on their mandate and do not monitor procurement performance.	procurement performance indicators, commence data collection activities, and report on procurement performance for the three basic sectors.		
Coverage of procurement audits by regional regulatory bodies is low	The regional regulatory bodies will maintain a minimum of 15% <i>woreda</i> procurement audit coverage throughout the project period and they will reach procurement audit coverage of 25% by May 2017.	High	DLI (Refer to DLI 9)
Insufficient resources are allocated for regional regulatory bodies.	Regional BoFEDs will provide adequate resources to regional regulatory bodies (budget and transport)	Substantial	PAP
The quality and depth of the procurement audits by regional regulatory bodies requires strengthening.	The FPPAA will provide training on procurement audits. Simplified documents for conducting procurement audits will be prepared and made available to staff.	Substantial	PAP
There are <i>woredas</i> that have not yet separated the procurement function from the accounting and disbursement function as directed by the Pool Manual.	The remaining <i>woredas</i> will organize the procurement unit as per the direction of the Pool Manual.	Substantial	PAP
Trainings to <i>woredas</i> procurement staff do not address their specific needs.	Structured and adequately timed trainings will be organized and delivered to <i>woreda</i> procurement staff based on the simplified directive and procedures.	Substantial	PAP
Despite works constituting a lion's share of procurement expenditure, trainings and	Revised <i>woreda</i> procurement procedures	Substantial	PAP

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
capacity building do not give attention to works procurement and contract management. The established pool system gives more weightage to goods procurement.	and directive will be implemented.		
Gaps in procurement planning, bidding document preparation, evaluation, contract award, and contract management at the <i>woreda</i> level that need to be addressed	<i>Woreda</i> -specific gap identification study and simplified directive and procedures study will be finalized, rolled out, and implemented.	High	PAP
<i>Woreda</i> procurement function is severely constrained with inadequate provision of basic facilities.	Attention will be given to the needs of <i>woreda</i> procurement units.	Substantial	PAP
F&C AND COMPLAINT-HANDLING MECHANISM			
Legal Framework and Structural Arrangement			
<p>Structure for control of F&C at the <i>woreda</i> level requires strengthening.</p> <p>Very low operationalization of the REACCs in Afar, Somali, and Gambella regional states (not well-functioning)</p>	<p>Structuring and capacity building for control of F&C at the <i>woreda</i> level</p> <p>Capacity-building support to undertake assessment on the workings of the design/systems and recommend fitting mechanisms</p>	Moderate	PAP
Recording/Reporting/Data and Information Sharing			
<p>Recording, organizing, and reporting arrangement of incidents and capacities at the <i>woreda</i> level is poor.</p> <p>The GRM and REACC representations at the <i>woreda</i> level lack the capacity to systematically record, classify,</p>	Strengthen capacities and support the provision of office facilities	Moderate	PAP

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
<p>and report complaints/ grievances and F&C incidences by sector and type of case.</p> <p>Civil service offices at the <i>woreda</i> level lack the capacity to systematically record, classify, follow up, and report human resources.</p>			
Internal Control and Overseeing			
<p>Overseeing capacity of the <i>woreda</i> council standing committee is weak, with some exceptions.</p> <p>Structural arrangement and salary level of internal audits at all levels influenced staff turnover.</p> <p>Capacity of the Budget and Finance Standing Committee to perform regular review and follow up of audit findings needs strengthening.</p> <p>Gaps in arrangements and use of receipts in internal revenue collection, deposit, withdrawal, and payment in health and education sectors</p>	<p>Capacity-building support for the <i>woreda</i> Budget and Finance Standing Committee on relevant disciplines that will enhance the ability to review audits, monitor and evaluate financial performances, and implement auditors' findings</p> <p>Timely submission of attendance verifications for salary control in <i>woredas</i> with large number of education and health institutions and inaccessible or out-of-the-way <i>kebeles</i> was challenging</p> <p>Internal audit coverage on internal revenue collection and payment in health and education sectors</p>	Moderate	DLI (Refer to DLI 10)
Understanding and Transparency/Disclosure of Complaint Handling			
Public's understanding and use of procedures on F&C as well as	Establish systems to regularly inform <i>woreda</i> communities about the	Moderate	PAP

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
<p>the maladministration addressing mechanism is limited.</p> <p>Challenge in disclosing data due to lack of balance between transparency and confidentiality or integrity</p>	<p>complaint-handling system. Improve transparency/disclosure of information systems.</p>		
Budget and Logistics/ Facilities			
<p>The GRM-implementing institutions are not budgetary except in Amhara.</p> <p>Transport and logistics for GRM implementing institutions</p> <p>F&C investigating capacity/skill of fiduciary personnel as well as the ability of investigators and auditors was stretched (processing large number of cases per year) and the level of security and available logistics were not matching.</p> <p>Non-conducive office working environment/insufficient office facilities for <i>woreda</i> maladministration and the REACC representatives (shortage of office, seat, and computers)</p>	<p>Support the improvement of working facilities/logistic requirements</p>	<p>Moderate</p>	<p>PAP</p>
Staffing			
<p>Shortage of fiduciary personnel and key staff in sector offices</p> <p>Inadequate skill and training of F&C and GRM staff</p> <p>The staffing level of the GRMs/REACCs at <i>woreda</i> level was not fulfilled.</p>	<p>Support the fulfillment of minimum manpower requirements for the GRM and REACC representations</p>	<p>Moderate</p>	<p>DLI (Refer to DLI 10)</p>
Assessment Capacity			

Risk Description	Proposed Mitigation Measures	Significance	PAP/DLI/Other
<p>Lack of assessment reports on the functioning of all the regional GRMs/the different structural arrangement and counterpart branches in the eight regions</p> <p>Lack of assessment reports on the effectiveness of the different structural arrangement of the REACCs at regional and <i>woreda</i> levels</p>	<p>Capacity-building support to undertake assessment on systems</p> <p>Capacity-building support on handling of complaints and to identify and assess maladministration/F&C risks</p> <p>Conduct beneficiaries' perception survey to assure the effective functioning of the systems in all regional states</p>	Moderate	PAP
FTA and Social Accountability			
<p>Limited coverage (30% of <i>woredas</i>) of SA initiative</p> <p>Lack of defined benchmark and indicator assessment of the level of institutionalization and scaling up of the pilot achievements</p>	<p>Capacity-building support and enhance the linkage and integration of SA practices</p>	Moderate	PAP

PROPOSED FIDUCIARY INPUTS TO THE PROGRAM ACTION PLAN

72. Refer to Annex 8 concerning Fiduciary Program Action Plan elements.

FIDUCIARY IMPLEMENTATION SUPPORT PLAN

73. **Reviewing implementation progress.** The Bank fiduciary team will review the implementation progress of the program in the following areas:

- (a) Review of reports: This can be semi-annual financial reports, quarterly continuous audit reports, annual program financial reports, and relevant progress reports on the implementation of the PAP and DLIs.
- (b) Conduct field visits or a fiduciary specialist will participate in missions or supervision/implementation support field visits.
- (c) Participate in the semiannual JRIS session and mission.

The objective is to monitor the achievement of agreed actions and the DLIs and review the continuing adequacy of systems as well as to monitor risks, covenants, and mitigation measures.

74. **Monitoring Fiduciary Risk.** The frequency and breadth of fiduciary systems implementation support may vary in accordance with changes in the risks to the program. Given the risk profile shown, this program will be reviewed twice through the semiannual JRIS.

75. The Bank will provide support to the program in addressing emerging implementation issues pertaining to fiduciary aspects. If needed, the Bank will support the program in technical assistance to develop long-term capacity.

Annex 6: Summary Environmental and Social Systems Assessment

Introduction

1. The ESSA reviewed the existing systems of the government, as they relate to the basic sectors supported by the ESPES, in terms of their capacity to plan and implement effective measures for environmental and social impact management at the federal, regional, and *woreda* levels. More specifically, the ESSA reviewed the government's regulatory and administrative framework and the capacity of the relevant implementing agencies to implement these, including consideration of previous relevant experience against the environmental and social effects that are likely to be associated with the ESPES-supported basic sectors (including education, health, agriculture, water, and rural roads). The aim was to determine if any measures are required to strengthen the government's environmental or social management system, especially at the *woreda* level, which will be detailed in a mutually agreed Action Plan and considered in the design of the ESPES.

2. The ESSA was guided by the six core principles and elements for environmental and social impact management incorporated into World Bank OP/BP 9.00 Program-for-Results Financing: (1) General Principle of Environmental and Social Management; (2) Natural Habitats and Physical Cultural Resources; (3) Public and Workers Safety; (4) Land Acquisition and Loss of Access to Natural Resources; (5) Indigenous Peoples and Vulnerable Groups; and (6) Social Conflict.

Methodology

3. The ESSA was based on (a) a desk review of government policies and program documents, reviews and evaluations, and ESSAs undertaken for other Bank-funded projects using the PforR instrument in Ethiopia; (b) interviews with federal-level sectors; (c) field visits in four regions and *woredas* (Dera in Amhara Region, Shebidino in SNNPR, Bambasi in Benishangul-Gumuz, and Asayita in Afar) during October–December, 2014; and (d) data collected from five of the most vulnerable and underserved communities in Ethiopia (Medo and Hummadoti communities in Afar, Mao and Komo communities in Benishangul-Gumuz, the Komo community in Gambella, Kayele and Bora communities in SNNPR, and the Somali community in Somali Region) as part of the PBS 3 Enhanced Social Assessment and Consultation.²⁴ In each of the regions and *woredas*, in-depth interviews were conducted with government officials across environment and basic sectors. Consultations were held on the ESSA with key stakeholders from the government, civil society, and DPs. The findings of the ESSA including the outcome of the consultations are detailed below.

Policy Context and Institutional Arrangements

4. The ESSA confirms that Ethiopia has an adequate institutional and legal framework for environmental and social management, including in the ESPES-supported basic sectors at the *woreda* level. However, the level of implementation of the framework provisions is generally low, though it varies between regions and sectoral offices within regions.

²⁴ Additional data collected as part of the (2014) PBS 3 Enhanced Social Assessment and Consultation focused on an assessment of circumstances which may facilitate or hinder the involvement of the most vulnerable and underserved groups in the five basic service sectors.

5. The Federal Democratic Republic of Ethiopia Constitution (1995) provides a framework for environmental protection and management in Ethiopia. It deals with cultural rights, workers' rights, sustainable development, environmental rights and obligations, and the rights of the people to be consulted in policies and projects that affect their communities, particularly in its Articles 42, 43, 44, 89, and 92. These constitutional provisions are highly related and in congruence with the core principles 1, 2, 3, 4, and 5 of the OP/BP 9.00. They lay down general rules which could be further detailed in subsidiary legislation. It should be noted that the participation of people with decision-making right involves their sovereign capacity as set out in Article 8 (3) of the Constitution. This provision of the Constitution shows that one of the ways the people express sovereignty is through their direct democratic participation. The Environmental Policy of Ethiopia (EPE), adopted in 1997, covers biophysical, socioeconomic, and cultural heritage aspects of the environment. It is one of the most comprehensive environmental policies in the world. The overall goal of the Environmental Policy of Ethiopia is to improve and enhance the health and quality of life of all Ethiopians and to promote sustainable social and economic development through sound management of the environment and use of resources so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. In short, the main direction is toward ensuring sustainable development through sound social and environmental management. The policy provides a number of key guiding principles that are geared toward environmental and social well-being: recognition of the environmental rights of all persons; empowering communities so that they engage in decision-making; adoption of the precautionary principle; and ensuring public participation, especially that of women, in the development endeavors of the country through effective environmental management schemes..

6. The Ministry of Environment and Forests (MEF) is the lead agency responsible for formulating policies, strategies, laws, and standards to ensure that social and economic development activities sustainably enhance human welfare and the safety of the environment as per Article 6 of Proclamation No. 295/2002. The regulation of EIA is one of the key responsibilities entrusted to MEF. MEF is responsible for establishing a system for undertaking EIA in public and private sector projects, developing a directive that identifies categories of projects likely to generate adverse impacts and require a full EIA, and issuing guidelines for the preparation and evaluation of Environmental Impact Study Reports as per Proclamation No. 299/2002, Articles 5 and 8. In addition, MEF is responsible for evaluating EIA reports of projects that need to be licensed and executed by the federal government and projects that are likely to generate interregional impacts. MEF is also responsible for monitoring, auditing, and regulating the implementation and performance of such projects. It holds primary responsibility for providing technical support on environmental protection and management to regional states and sectoral institutions.

7. While the Environmental Policy of Ethiopia defines 'environment' as encompassing human and social aspects as well as the biophysical, there are other aspects related to social management as outlined in the core principles which are beyond the EIA in Ethiopia but are covered by the GoE in other ways. Regarding vulnerable groups, Article 39 of the constitution of Ethiopia recognizes the rights of groups identified as 'Nations, Nationalities and Peoples', defined as "a group of people who have or share a large measure of common culture or similar customs, mutual intelligibility of language, belief in a common or related identities, a common psychological make-up, and who inhabit an identifiable, predominantly contiguous territory." The constitution recognizes their right to self-determination, including the right to secession; speak,

write, and develop their own languages; express, develop, and promote their cultures; preserve their history; and self-government (including the right to establish institutions of government in the territory that they inhabit and equitable representation in state and federal governments). The Ethiopian constitution also recognizes the rights of pastoral groups inhabiting the lowland areas of the country.

8. Owing to their limited access to socioeconomic development and underserved status over the decades, the GoE has designated four of the country's regions namely Afar, Somali, Benishangul-Gumuz, and Gambella as Developing Regional States. In this respect, Article 89 (2) states "The government has the obligation to ensure that all Ethiopians get equal opportunity to improve their economic situations and to promote equitable distribution of wealth among them." Article 89 (4) states "Nations, Nationalities and Peoples least advantaged in economic and social development shall receive special assistance."

9. A directorate within the Ministry of Federal Affairs is responsible for coordinating multi-sectoral support, including pastoral development endeavors in pastoral regions designed to ensure equity between regions. Responsibilities include promoting equitable development with an emphasis on delivering special support to the developing regions.

10. In November 2014, the government approved a Social Protection Policy that lays out a vision for social protection in Ethiopia. The policy has identified five key strategic focus areas: (a) social safety nets; (b) livelihood and employment promotion; (c) social insurance; (d) access to health, education, and other social services; and (e) addressing violence, abuse, and neglect and providing legal protection and support. Overall, the policy commits the government to move beyond the partial and fragmented provision of social protection to establish a social protection system. The policy also provides a framework for the coordination and provision of social protection services in Ethiopia. It defines the roles and responsibilities of the government at the federal, regional, and local levels in managing the social protection system to progressively fulfil the constitutional rights of citizens. The policy defines the vulnerable as children, older people, people with disabilities, and the chronically ill. The Ministry of Labor and Social Affairs is mandated to oversee the implementation of the policy.

Findings: Typical Environmental and Social Effects of ESPES-supported Sectors

11. Activities to be financed by the ESPES are not expected to directly create negative environmental and social effects. However, the ESPES provides an opportunity to strengthen environmental and social assessment and management systems for managing activities in the ESPES-supported sectors (that is, education, health, agriculture, water, and rural roads) which might give rise to such effects.

12. The environmental effects of the activities of the ESPES-supported sectors at the *woreda* level are not assumed to be significant, taking into consideration that most of the works are relatively small and confined within limited geographical areas. However, where there are environmental risks (a) mitigation works can effectively reverse the potential negative environmental and social effects and (b) public participation and consultation, with the possibility of using local knowledge, could contribute to reducing or avoiding negative effects.

13. Although the ESPES will not fund any activities having negative social impacts, sectors supported by the ESPES are likely to implement projects that may require the implementation of mitigating measures related to the loss of assets. As the six core principles go beyond the traditional coverage of the EIA, the ESSA, in addition to the issues covered by the EIA per se, covered issues such as conflict resolution, health and safety, and potential issues related to the equitable access to services delivered by the five basic services supported by the ESPES and the ability of these services to meet the needs of the most vulnerable and underserved groups in Ethiopia. To this end, the findings of the recent (2015) PBS 3 Enhanced Social Assessment and Consultation have been integrated to address core principle 5—Vulnerable Groups—which goes beyond the traditional coverage of the EIA in Ethiopia.

14. An assessment of the institutional capacity, guidelines and procedures, and practices in environmental and social management in the ESPES-supported sectors at the *woreda* level concludes that there are medium-level environmental and social risks associated with their activities. Risks largely emanate from (a) lack of capacity and commitment; (b) wide variation in the level of provision of guidelines and procedures between *woredas* and regions; (c) inefficient coordination between the different sector offices; and (d) a lack of operational budget dedicated for environment and social management at the *woreda* level.

Findings: *Woreda*-level Capacity Assessment

15. Despite the comprehensive laws in place, there are implementation shortcomings—particularly at the *woreda* level—which may negatively affect the ability of the sectors to respond to potential environmental and social impacts. In the oversight offices visited, there are staff available to work on environmental and social management. However, the main shortcomings are related to the fact that there is little direct involvement either in environmental or social impact assessment and management despite the existence of procedures designed for this purpose in many regions. The implementing agencies generally have few staff available to handle environmental and social issues despite the fact that projects have potential for negative environmental and social impacts. In general, developing regions face more capacity challenges and for both oversight bodies and implementing agencies, the capacity for social management is weaker. Gaps are further exacerbated by high staff turnover, which results in loss of institutional memory.

16. For many *woreda* offices, environmental and social management is not a priority. As a result, the ESIA is not incorporated in the design, implementation, and the M&E phases of projects at the *woreda* level, with the exception of donor-funded projects requiring Environmental and Social Management Frameworks. As such, the ESPES seeks to build overall implementation capacity to strengthen the systems to manage environmental and social effects in the ESPES-supported basic services sectors.

17. Specific findings include:

- *Inadequate awareness and commitment* to environmental and social management generally.

- *Human Resources* - Shortage of staff and lack of training on environmental and social management. Many *woreda* offices do not have experts assigned for environmental and social management, with the exception of the EPLUA and health offices in some regions. The lack of staff and training is more serious in the emerging regions.
- *Guidelines* - Wide variation in the level of provision of guidelines and procedures across *woredas* and regions. With the exception of the *woreda* EPLUA offices in some regions, hardly any of the sector offices have EIA guidelines and checklists.
- *Cultural heritage* tends to be overlooked in many cases and the Ministry of Culture and Tourism is not brought into the EIA loop in most cases despite the fact that Ethiopia is rich in cultural resources.
- *Environmental and Social Impact Assessment* - The EIA is not generally practiced, except in relation to donor-funded projects, in many *woredas*. When it is practiced, the assessment is generally stronger on the biophysical side and much weaker on the social side.
- *Coordination* - There is no formal link between environmental protection organs and the sectors with regard to environmental and social management with the exception of few *woredas* in some regions.
- *Community Consultation* - Although there is often information sharing, especially related to project site selections, community consultation is generally weak.
- *GRM* - There are wide variations in the availability and application of GRM across regions.
- *Social Accountability* - There is an SA program that people are aware of. The most vulnerable and underserved citizens tend to feel uncomfortable expressing their individual views directly to service providers or through a GRM. Participation of the most vulnerable can be made more structured and systematic by including specific prescriptions in the guidelines based on emerging lessons.

Recommendations

18. To manage these risks and strengthen the country system for environmental and social management, particularly at the *woreda* level, the ESSA suggests the following:

- Higher-level awareness creation and education on importance of good environmental and social management for success of the development process at the regional and *woreda* levels.** At the regional level, a stronger commitment in addition to awareness creation for *woreda* councils and office heads needs to be developed.
- Strengthen the environmental and social management system at the *woreda* level.** The ESPES-supported sectors need to demonstrate that they have established a functional environmental and social management system to manage risks in their respective sectors. In the first year of the ESPES, an Environmental and Social Management System Operational Manual will be developed at the federal level by the MoFED in collaboration with the MEF following consultations with stakeholders at different levels. Starting from the second year of the ESPES, regions and *woredas* will adapt the manual and use it to manage the potential environmental and social effects of projects and programs, especially in the ESPES-supported sectors.

- (c) **Training and human resources.** Based on the *woredas* sampled, it is apparent that there is a shortage of staff and lack of training on environmental and social management. With the exception of the EPLUA and health offices in some regions, most of the *woreda* offices do not have experts assigned for environmental and social management. Though not adequate to perform the task, under their jurisdiction, both offices have at least one expert assigned for environmental and social management work. The lack of staff and training is more serious in the Developing Regional States. A capacity-building and training program will be critical to ensure that the minimum required staff is available, they have the required skills and knowledge, understand their roles and responsibilities, and that environmental and social management is included in their performance assessment. To ensure the sustainability of the training, efforts will be made to develop partnerships with regional universities. Training should also include specialization in how to work with vulnerable and underserved groups.
- (d) **Environmental and social management guidelines.** There is a wide disparity in the level of provision of guidelines and procedures between *woredas* and regions. Even in the highland regions there is a mixed picture. *Woreda* EPLUA offices in some regions have EIA guidelines and checklists and work closely with sectoral offices on their application. On the other hand, almost all *woreda* sector offices do not have the EIA guidelines and checklists except some guidelines that are used for site selection in their respective sectors. The EIA guidelines need to be adapted at the regional level, simplified to be understood by *woreda* staff, and widely distributed. Guidelines should also be strengthened to clarify procedures on mitigating measures related to conflict management, in addition to vulnerable peoples. Community consultation and GRM and SA procedures should also be strengthened.
- (e) **Coordination.** Environmental and social management is a cross cutting issue which needs the coordination of different sectors. In some cases, it has been observed that there are no formally established links between environmental protection organs and the other sectors with regard to environmental and social management. The Environmental and Social Management System Operational Manual will elaborate on this and suggest possible coordination mechanisms to strengthen horizontal and vertical linkages for improved environmental and social management, particularly at the *woreda* level.
- (f) **Financial resources.** One of the issues linked to the lack of capacity at the *woreda* level is an inadequate operational budget. Allocating a certain percentage of *woreda* operational budgets to environmental and social management activities may help to address this challenge.

19. The ESPES provides an opportunity to contribute to improved environmental and social management system by addressing the following environmental and social management challenges of the ESPES-supported sectors, particularly at the *woreda* level:

- (a) **Environmental and Social Management System Operational Manual.** The manual will include procedures for due diligence; identification of potential environmental and social effects; mitigation measures; and an implementation and monitoring plan. This will help *woreda* staff screen projects for their environmental and social effects and monitor the implementation of mitigation measures, if any.

- (b) **Institutional capacity building.** Key positions including environmental and social management specialists at different levels will be filled to ensure that there is adequate mechanism and capacity to screen environmental and social risks of investments in the ESPES-supported sectors, particularly at the *woreda* level. The staff will be provided proper training to undertake their activities related to environmental and social management.
- (c) Continue and strengthen Citizens engagement efforts (under PBS Sub Program B and ESAP) which address social management aspects related to vulnerable groups, including:
- **FTA.** Continue the FTA component, strengthen quality of the FTA training, and ensure that more women and physically challenged persons are included in the FTA activities (especially budget literacy training).
 - **Grievance Redress.** Continue the GRM component of PBS 3 and ensure GRM officers at the *woreda* level receive training to be able to work with illiterate and the most vulnerable community members to ensure that their grievances are documented and addressed and their confidence in the GRM system is built. The training will also ensure that GRM officers are able to post and publicize examples of successful GRM cases so that citizens become aware that the system is working. Innovative communications approaches including use of multimedia should be used to strengthen awareness about availability of the GRM.
 - **Social Accountability.** Continue the ESAP Phase 2 and further strengthen linkages with the PBS FTA component to ensure that the most vulnerable communities have the necessary information for them to be able to engage in SA. The participation of the most vulnerable and underserved groups can be strengthened by including specific steps in the Social Accountability Guidelines in addition to training for SAIPs to ensure that the specific needs of the most vulnerable are accommodated.
- (d) **Recognize and reward.** An annual event to recognize and reward better performing regions or *woredas* with activities that demonstrate sound environmental and social management will be organized.

Consultation on the ESSA

Consultations were held in Addis Ababa on the draft ESSA on February 16, 2015 with members of federal and regional governments, civil society, and DPs. Overall the report was well received by the participants who discussed issues related to (a) institutional arrangements for environmental and social management; (b) capacity for environmental and social management; (c) public consultation, grievance redress, and SA; and (d) how environmental and social management systems address vulnerable groups. Participants appreciated the emphasis the report places on awareness creation and education to develop more commitment to environmental and social management at all levels. Participants expressed caution in relation to the budget required for proposed capacity-building activities at the *woreda* level. Participants recommended that more emphasis be placed on the findings related to coordination between oversight bodies and implementing sectors in the report.

Annex 7: Program-for-Results Integrated Risk Framework

Ethiopia: Equitable Basic Services

Technical Risk	Rating:	Medium		
<p>Description: The major technical risks are the following:</p> <p>(a) project staffing and management: turnover of staff could lead to difficulty in maintaining basic service delivery and meeting the project’s goals, affecting project effectiveness;</p> <p>(b) data quality: data quality issues could damage the reliability of the project’s results; and</p> <p>(c) institutional capacity: an inadequate stock of skilled and experienced personnel at all levels will slow the pace of execution and jeopardize its efficacy.</p>	<p>Risk Management: Mitigation for each key risk is as follows:</p> <p>(a) The government has increased the salaries of its civil servants. This increase, on the order of 100% for lower-grade staff, will serve as an incentive for basic service providers to remain in their posts. The project will also include DLIs laying out the number of qualified staff to be hired in each sector, thus encouraging the government to continue to address this issue. The government has committed to a strong level of staffing for the COPCU. The semiannual JRIS missions will give the Bank and other DPs the opportunity to closely monitor the overall staffing situation.</p> <p>(b) Data quality is seen to be improving in Ethiopia. ESPES will continue to reward gains in data and results delivery. The ongoing PBS Sub Program B (on capacity building) will continue to support activities to strengthen data quality at the federal and local levels by supporting the M&E systems of line ministries and collaborating closely with the CSA. Other projects are also focusing on improving the capacity of the CSA and the line ministries.</p> <p>(c) In parallel to this operation, substantive and ongoing capacity support is expected through the PBS 3 Subprogram B. In addition, the Bank foresees robust implementation support by staff based in the country to ensure adequate capacity and responsiveness for the duration of the program.</p>			
	<p>Resp: Government and the Bank</p>	<p>Stage: All</p>	<p>Due Date: Continuous</p>	<p>Status: In progress</p>
Fiduciary Risk	Rating:	Substantial		
<p>Description: The fiduciary risk for this operation is classified as Substantial. Overall, the Fiduciary Assessment concludes that the program FM and procurement</p>	<p>Risk Management: The program’s Fiduciary Assessment outlines a detailed set of mitigation measures, supported through actions in the DLIs and the PAP: (a) strengthening PFM via improved planning and budgets, internal controls, external audit, transparency, staffing, and</p>			

<p>systems are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes—with due attention to principles of economy, efficiency, effectiveness, transparency, and accountability—and for safeguarding program assets once the proposed mitigation measures have been implemented. Appropriate systems to handle fiduciary risks, including F&C and effective complaint-handling mechanisms, have been agreed on and established. At the same time, in some administrative areas—and especially at the <i>woreda</i> level—there is weak capacity on procurement and FM. Internal audit and procurement functions need further strengthening, and high staff adversely affects capacity-building efforts. There are ongoing delays in addressing the findings and recommendations of the audit reports.</p>	<p>facilities provision; (b) strengthening procurement via capacity support to regional regulatory authorities; support for enhanced audit coverage, depth, and quality; and provision of additional planning and training; and (c) strengthening fraud and complaint handling via improved legal framework and structural arrangements, recording and reporting of data, internal controls, disclosure policies, staff training.</p> <p>It should be noted that from the perspective of the Bank’s project design and supervision, a priority of ongoing support is to provide reasonable assurance about the uses to which funds have been put and the arrangements for recording and reporting on them. To this end, the Bank team is working to reduce systemic risks relating to FM via (a) financial system strengthening programs, including the rollout of the IBEX to all <i>woredas</i>; (b) support for system strengthening through a stand-alone PFM project; (c) an action plan by the OFAG to strengthen all regional audit offices; (d) tackling of audit backlogs; and (e) development of annual benchmarking of PFM performance for all <i>woredas</i>. These actions reflect the PFM DLI, which provides incentives for continued improvement in the PFM sector. The ongoing PBS Sub Program B will continue to support improvements in the mechanisms of financial reporting and procurement management systems and overall training.</p>		
<p>Environmental and Social Risk</p>	<p>Rating:</p>	<p>Moderate</p>	
<p>Description:</p> <p>The ESSA concluded that the activities to be financed by the ESPES are not expected to directly create negative environmental and social effects. The program provides block grants to <i>woredas</i> targeted at the five basic sectors. Investments by these ESPES-supported sectors at the <i>woreda</i> level could have moderate, site-specific, environmental and social effects. Where there are negative effects, mitigation measures can be designed and implemented. The ESSA also found that social management aspects are particularly weak in both large and developing regions. Considering the type</p>	<p>Risk Management:</p> <p>The ESSA confirms that Ethiopia has an adequate institutional and legal framework for environmental and social management, including in the ESPES-supported basic sectors at the <i>woreda</i> level. Experiences from the implementation of the PBS 3 and PBS 2 indicate that, for the most part, negative environmental and social effects can be prevented or mitigated with standard operational procedures and proper use of the country EIA proclamation, procedures, and guidelines. However, the level of implementation of the provisions of the framework varies between regions and sectoral offices within regions, and is generally low. Thus, risk mitigation actions will include (a) expanding capacity at the <i>woreda</i> level for environmental and social management, to include the assignment of an environment and social management specialist in the MoFED and focal persons in the BoFEDs; (b) strengthening <i>woreda</i> EPLAU offices; (c) ensuring the assignment of a focal person in the ESPES-supported sectors for environmental and social management; and (d)</p>		

<p>and level of capital investments in the ESPES-supported sectors, the environmental and social risks of the program are rated as Moderate. These risks include (a) lack of capacity for environmental and social management—capacity gaps may lead to poor project design and implementation, and poor monitoring of environmental and social effects, particularly at the <i>woreda</i> level; (b) limited operational budget for environmental and social management; (c) inadequate coordination between the ESPES-supported sectors and oversight bodies (for example, EPLAU, BoLSA, and BoCT); (d) inadequate commitment to and recognition of good performance; and (e) absence of regular joint review mechanisms.</p>	<p>strengthening coordination between the ESPES sectors and oversight bodies (for example, EPLAU, BoLSA, and BoCT), including awareness about roles and responsibilities, networking, allocating resources, and regularly monitoring performance.</p> <p>From the program’s ongoing supervision efforts, a dedicated environmental and social safeguards specialist will support program implementation, with a particular focus on capacity-building at the regional and <i>woreda</i> level.</p>			
	<p>Resp: Government and the Bank</p>	<p>Stage: Project design and implementation</p>	<p>Due Date: Continuous</p>	<p>Status: In progress</p>
<p>DLI Risks</p>	<p>Rating:</p>	<p>Moderate</p>		
<p>Description:</p> <p>There is a risk that the DLIs are too ambitious and will not be met, thus affecting disbursement. There is a further risk that because of the number of DLIs, they will require strong coordination, which may prove challenging for semiannual supervision. In addition, verification of some DLIs will require compiling and submitting administrative data, and there is a possibility that these data will be of poor quality or may not be made available in a timely manner.</p>	<p>Risk Management:</p> <p>Close attention has been paid to DLI selection. The DLIs were based on historical trends in Ethiopia and with an eye to capacity constraints and potential for improvement. The need for strong verification protocols for the DLIs has been considered to ensure a consolidated process around DLI verification during semiannual supervision missions. The continued use of MOFED as an implementation agency ensures the continuity of this process and smooth implementation.</p> <p>Furthermore, the DLIs and the M&E approach have been devised to require data that build on existing information systems, rather than duplicating information requirements or soliciting new data. The Bank’s support of the M&E systems of line ministries (through the PBS and sectoral projects) has resulted in improvements in data quality in Ethiopia. The reporting units of the relevant ministries continue to build their capacity for timely dissemination of local-level data. Additionally, the CSA has been selected as the primary verification entity, along with specific agencies that will verify fiduciary DLIs, the PBS Subprogram B is providing capacity support to these agencies.</p>			
	<p>Resp: Government and the Bank</p>	<p>Stage: Implementation</p>	<p>Due Date: Annual</p>	<p>Status: Not yet due</p>

Other Risks (Optional)	Rating:	Medium		
<p>Description :</p> <p>Interface with CDP: The ESPES may have an operational interface with CDP because of commonality of objectives, mutual impacts, geographic overlap, and concurrent implementation. The program should adequately address any operational interface with GoE-financed programs, including the CDP.</p>	<p>Risk Management :</p> <p>In the context of risks arising from the CDP, the Bank’s approach involves continued engagement—along with other DPs—in country-level dialogues with the GoE. Within this engagement framework, policy dialogue at the level of the DAG remains critical. In addition, the program of support sets out considerable environmental and social management capacity support at the <i>woreda</i> level to ensure that this type of risk can be fully managed.</p>			
	Resp: Bank	Stage: Program design and implementation	Due Date : Continuous	Status: In Progress
OVERALL RISK RATING				
Substantial	<p>The overall risk of the program is rated as Substantial. To manage the risks, the ESPES will rely on carefully selected DLIs that will provide the proper incentives for mitigating risk, and on close monitoring and verification of results through the JRIS missions. Overall, the risk ratings of preparation and implementation are Moderate, based on the Bank’s experience of the Bank and the government’s high commitment to the overall program.</p>			

Annex 8: Program Action Plan

Action	When	Responsible Body	DLI
Technical			
Per capita increase in budgeted Federal Government block grant transfers to Regions, excluding Addis Ababa	Ongoing	MoFED	X
Increased proportion of qualified female agricultural development agents (diploma level)	Ongoing	MoA	X
Increased number of health extension workers who have graduated with a Level 4 qualification	Ongoing	MoH	X
Increases in total number of students enrolled (net) in grades 5-8, in all Regions, excluding Addis Ababa	Ongoing	MoE	X
Improved geographic equity in education and health service delivery outcomes, based on Net Enrollment Rate and Penta 3 Vaccine indicators for the bottom 10% of Performing Woredas	Ongoing	MoE and MoH	X
Improved wealth equity in education and health service delivery outcomes, based on Net Attendance Rate and Penta 3 Vaccine indicators for the Bottom Wealth Quintile group	Ongoing	MoE and MoH	X
Improved development information and data for service delivery	Ongoing	CSA and affiliated institutions	X
Provide training on M&E for relevant staff working in the three basic service sectors (education, health, and agriculture)	Year 1, 2 and 3	MoE/MoH and MoARD	
Undertake countrywide study and understand cost of basic services at the national level	Year 2	MoFED	
Undertake domestic resource mobilization study	Year 2	MoFED	
Support to enhance implementation capacity of the CSA, OFAG, FEACC, and FPPPAA through independent consultants	Year 1, 2 and 3	MoFED	
Undertake sectoral awareness raising campaigns to ensure citizens are aware of opportunities and entitlements linked to service delivery	Year 1, 2 and 3	MoE/MoH and MoARD	

Action	When	Responsible Body	DLI
Fiduciary			
<i>Financial Management</i>			
Establishment of a government system for benchmarking Woreda public financial management (“PFM”) performance (the “PFM Benchmarking Rating”)	Ongoing	MoFED	X
PEFA: Address the concerns raised by the PEFA and report progress semiannually	Years 1, 2, and 3	MoFED/BoFED	
Accounting and reporting: Expedite the action on connecting <i>woredas</i> and sector bureaus with the BoFED through the <i>woreda</i> network	Years 1, 2, and 3	MoFED/BoFED	
Internal control: <ul style="list-style-type: none"> For payrolls: Roll out the existing payroll application software. For property administration - Develop a property management application system to enhance the control. Experience can be shared from Tigray and Somali. 	Years 1, 2, and 3	MoFED/BoFED	
External audit: <ul style="list-style-type: none"> The OFAG and MoFED should provide necessary support, including manpower to clear the backlog of audit reports of the consolidated account. Special emphasis should be placed on the Gambella backlog of consolidated audits. Increase performance audit coverage 	Years 1, 2, and 3	MoFED/BoFED	
FM staffing and facilities - Ensure that the performance of the pool system at the <i>woreda</i> level improves through enhanced staff capacity and facilities.	Years 1, 2, and 3	MoFED/BoFED	
<i>Procurement</i>			
Oversight functions of regional procurement bodies has been improved	Ongoing	Regional procurement regulatory bodies/BoFED	X
Regional regulatory bodies maintain a minimum of 15% <i>woreda</i> procurement audit coverage annually	Years 1, 2, and 3	Regional procurement regulatory bodies/BoFEDs	
Provide adequate resources to regional regulatory bodies to carry out their function as per proclamation (budget and transport)	Years 1, 2, and 3	BoFEDs	

Action	When	Responsible Body	DLI
Provide trainings on procurement audit	Year 1	FPPAA	
Customize, roll out, and implement simplified procurement directives and procedures in <i>woredas</i>	Years 1 and 2	FPPAA/regional regulatory bodies/BoFEDs	
<i>F&C and Complaint Handling</i>			
Strengthened capacity of Woredas to effectively respond to fraud and corruption complaints	Ongoing	REACCs, BoFEDs, WoFEDs	X
Strengthened capacity of Woreda Council Finance and Budget Standing Committee members to provide effective oversight, transparency and accountability for budgets	Ongoing	REACCs, BoFEDs, WoFEDs	X
Undertake capacity gap assessment of the REACCs in Afar, Somali, and Gambella regional states	Year 1	BoFEDs/REACCs in Afar, Somali, and Gambella	
Implement recommendations forwarded by the capacity gap assessment of the REACCs in Afar, Somali, and Gambella regional states	Years 2 and 3	REACCs	
Ensure on time submission of staff attendance verification sheet for salary control in all <i>woredas</i> , particularly for education and health institutions	Years 1, 2, and 3	BoFEDs/WoFEDs	
Increase the number of <i>woredas</i> which have rectified audit findings from the current level of below 10%	Years 1, 2, and 3	BoFEDs/WoFEDs	
Prepare disaggregated data by sectors/issues related to complaint and F&C cases	Year 3	Regional GRM offices/ REACCs	
Inform the public through mass media (regional) on complaint handling procedures	Years 1, 2, and 3	Regional GRM offices/ REACCs	
<i>Reducing Systemic Risk</i>			
The Bank team has been working on reducing systemic risks relating to FM. Steps include: (a) Financial system strengthening programs specific to the PBS will continue, including completing the rollout of the IBEX to all <i>woredas</i> by the end of FY2016 subject to power connections. (b) Support for system strengthening will be supplemented with several	Ongoing	MoFED, Bank, and associated institutions	

Action	When	Responsible Body	DLI
<p>mechanisms including the restructuring of sub-program B of PBS 3.</p> <p>(c) An action plan will be prepared by the OFAG during FY2016 to strengthen the effectiveness of all regional audit offices.</p> <p>(d) The consolidated audit backlog in Gambella has been reduced and the Bank will work with the OFAG with a specific timeline and benchmarks for completely eliminating the backlog by FY2016.</p> <p>(e) Starting with a few regions in FY2016, there will be annual benchmarking of PFM performance for all <i>woredas</i>.</p>			
Environmental and Social Capacity Management			
Improved environmental and social management capacity at Woreda level	Ongoing	MoFED and associated institutions	X
Assign one environmental and social management specialist in the MoFED as a focal person	Year 1	MoFED	
Assign environmental and social management focal person in the BoFEDs and <i>woreda</i> ESPES-supported sectors	Year 1	BoFED/ <i>woreda</i> council	
Undertake annual performance assessment of environmental and social management specialists	Years 1, 2, and 3	BoFED/WoFED	
Recognize better-performing <i>woredas</i> with activities that demonstrate sound environmental and social management	Years 2 and 3	Regional government	
Organize forums dedicated to reviewing the implementation of agreed actions on environmental and social management	Years 1, 2, and 3	BoFED/WoFED	
<i>Sustaining Citizens' Engagement for Better Basic Service Delivery</i>			
Enhanced transparency and accountability through citizen engagement	Ongoing	MoFED in collaboration with responsible agencies	X
Roll out of awareness raising campaign at the local level to ensure citizens are familiar with SA, FTA and GRM opportunities	May 2016	MOFED	
At least four regions have standard GRM structures and standardized regulations and manuals	May 2016	MoFED in collaboration with responsible agencies	

Action	When	Responsible Body	DLI
Guidelines for implementing FTA-SA linkage disseminated in at least 223 <i>woredas</i>	May 2016	MoFED	
At least five regions have structures and standardized regulations and manuals	November 2017	MoFED in collaboration with responsible agencies	
Undertake a review of progress in FTA-SA linkage implementation	May 2017	MoFED	
25% of <i>woredas</i> conduct pre-budget discussion, with 40% women participation	November 2017	MoFED	

Annex 9: Implementation Support Plan

1. Given the size of the program and being the first PforR operation with the main implementing agency (MoFED), support to the client in the implementation of the program will be essential. The support will involve extensive dialogue with the MoFED in monitoring the progress and achievement of the PDO, due diligence on the DLIs, and ensuring smooth implementation of the PAP. Since the operation will entirely rely on the government system, it will also be appropriate to closely monitor and resolve emerging program implementation issues related to the PDO and DLIs. Further implementation support requirements are outlined in the background assessments and summaries.
2. The management structure and staffing deployed for the PBS 3 program will continue to manage the implementation of the PforR operation. The field-based presence of the task team leader and co-task team leader will continue with extensive support from the task team members and staff. Senior level, field-based staff will support and lead the dialogue on major program themes. Besides, cross collaboration with the Macroeconomics and Fiscal Management Global Practice on the IGFT and related DLI; the Governance Global Practice on fiduciary DLIs; the Water, Agriculture, and Education Global Practices on delivery of respective services and due diligence on related DLIs will be sought.
3. JRIS missions: Biannual JRIS missions will be conducted to review progress and achievement of the PDO, discuss and resolve emerging implementation challenges, and verify achievement of result targets as agreed in the DLI verification protocol. The JRIS missions will have a strategic results focus.
4. Regular meetings will be conducted with affiliated partners to discuss and resolve strategic issues related to the program. The government (COPCU head) is attending the meeting on a bimonthly basis and is benefiting from strong partnership and discussion on important issues. The platform will also enable the client and DPs raise and discuss issues related to the implementation and management of the ESPES program.
5. IDA financing for block grants will switch to PforR mode. Upon effectiveness PBS 3 Program A will have been exhausted. Other partners such as the ADB, Austria Development Agency, and Italian Development Cooperation disburse directly to the MoFED.
6. PBS 3 DPs agreed that the service from the PBS Secretariat will be extended as a reformulated entity to support the implementation of the ESPES PforR operation. This entity will have an expanded focus on risk management and sectoral linkages. The entity will in particular will support the client to deliver on the agreed DLIs and PAP, although the responsibility fully rests with the client. The team will arrange the biannual JRIS missions (including field missions), organizing monthly DPs meetings, and undertaking necessary analytical works to inform better program management and risk management. Hence, to ensure quality and continued service from the secretariat, it will be adequately staffed with the necessary expertise. PBS 3 Sub Program B for capacity support will continue to operate for the duration of ESPES.

Main Focus of Implementation Support (Core Skills)

Time	Focus	Skills Needed	Resource Estimate
First 12 months	<p>Overall coordination across basic services and local-level accountability system</p> <p>Coordination of the monitoring and verification process of the DLIs</p> <p>Development of approach to support and monitor the progress of the PAP</p> <p>Support the implementation of the PAP in the areas of FM, procurement, public sector governance, citizens' engagement, M&E, and ESMC</p> <p>Review of progress toward the achievement of the PDO and DLIs and implementation of the PAP</p>	<p>World Bank</p> <p>Senior social protection specialist, task team lead</p> <p>Senior social protection specialist, co-task team lead</p> <p>Senior social protection specialist</p> <p>FM specialist</p> <p>Procurement specialist</p> <p>Public sector specialist</p> <p>Donor Coordination Team</p> <p>Coordinator</p> <p>M&E specialist</p> <p>Safeguards specialist</p> <p>Operations officer</p> <p>Economist</p>	<p>25 Weeks</p> <p>30 Weeks</p> <p>35 Weeks</p> <p>12 Weeks</p> <p>12 Weeks</p> <p>12 Weeks</p> <p>10 Weeks</p> <p>8 Weeks</p> <p>15 Weeks</p> <p>15 Weeks</p> <p>10 Weeks</p>
12–36 months	<p>Coordination of the monitoring and verification process of the DLIs</p> <p>Support the implementation of the PAP in the areas of FM, procurement, public sector governance, citizens' engagement, and M&E.</p> <p>Review of progress toward the achievement of the PDO and DLIs and implementation of the PAP</p> <p>Support preparation of completion report</p>	<p>World Bank</p> <p>Senior social protection specialist, task team lead</p> <p>Senior social protection specialist, co-task team lead</p> <p>FM specialist</p> <p>Procurement specialist</p> <p>Public sector specialist</p> <p>Donor Coordination Team</p> <p>Coordinator</p> <p>M&E specialist</p> <p>Safeguards specialist</p> <p>Operations officer</p> <p>Economist</p>	<p>50 Weeks</p> <p>60 Weeks</p> <p>24 Weeks</p> <p>24 Weeks</p> <p>24 Weeks</p> <p>20 Weeks</p> <p>16 Weeks</p> <p>30 Weeks</p> <p>30 Weeks</p> <p>30 Weeks</p>

Task Team Skills Mix Requirements for Implementation Support (Core & Wider Support)

Skills Needed	Number of Staff Weeks (Year 1)	Number of Trips	Comments
Task team lead - Program management	25	IRS, based in CO	Bank
Co-task team lead - Program Management	30	IRS, based in CO	Bank
Lead PFM specialist	6	IRS, based in CO	Bank
Senior social protection specialist	35	LRS	Bank, citizens' engagement focus
Senior social protection specialist (coordinator)	10	IRS	Donor Coordination Tm
Senior social protection specialist /safeguards	15	Based in CO	Donor Coordination Team
Senior M&E specialist	8	LRS	Donor Coordination Team
Operations officer	15	LRS	Donor Coordination Team
Senior education specialist	2	Based in CO	Bank
Senior health specialist	2	Based in CO	Bank
Senior agriculture specialist	1	Based in CO	Bank
FM specialist	12	LRS	Bank
Procurement specialist	12	LRS	Bank

Note: IRS - Internationally Recruited Staff; LRS - Locally Recruited Staff; CO - Country Office