

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.:PID0013674

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| <b>Program Name</b>                           | <i>Equitable Basic Services</i>  |
| <b>Region</b>                                 | <i>Africa</i>  |
| <b>Country</b>                                | <i>Ethiopia</i>  |
| <b>Global Practice</b>                        | <i>Social Protection and Labor</i>   |
| <b>Lending Instrument</b>                     | <i>Program for Results</i>   |
| <b>Program ID</b>                             | <i>P151432</i>   |
| <b>Borrower(s)</b>                            | <i>Federal Democratic Republic of Ethiopia</i>   |
| <b>Implementing Agency</b>                    | <i>Ministry of Finance</i>   |
| <b>Date PID Prepared</b>                      | <i>September 12, 2014</i>  |
| <b>Estimated Date of Appraisal Completion</b> | <i>April 26, 2015</i>  |
| <b>Estimated Date of Board Approval</b>       | <i>July 2, 2015</i>  |
| <b>Concept Review Decision</b>                | <i>Following the review of the concept, the decision was taken to proceed with the preparation of the operation.</i> |

## **I. Introduction and Context**

### **A. Country Context**

1. **Ethiopia is a large and diverse country.** It is located in the Horn of Africa and is land-locked with an area of 1.1 million square kilometers. Ethiopia's biophysical environment includes a variety of contrasting ecosystems, with significant differences in climate, soil properties, vegetation types, agricultural potential, biodiversity, and water resources. Ethiopia is a country of many nations, nationalities, and people, with a total population of 91.7 million (2012).<sup>1</sup> Only 17 percent of the population lives in urban centers, with the great majority living in Addis Ababa. At a current annual growth rate of 2.6 percent, Ethiopia's population is estimated to reach 130 million by 2025, and is projected by the United Nations (UN) to be among the world's top 10 by 2050. Ethiopia is vulnerable to terms of trade shocks from international food and fuel prices, and to large domestic weather-related shocks, as the 2011/12 East Africa drought demonstrated.

2. **Ethiopia has experienced strong economic growth over the past decade.** Economic growth averaged 10.7 percent per year in 2003/04 to 2011/12, compared with the regional average of 5.4 percent. This growth reflected a mix of factors, including agricultural modernization, the development of new export sectors, strong global commodity demand, and government-led development investments. Private consumption and public investment have driven demand-side growth, with the latter assuming an increasingly important role in recent years. On the supply side, growth was driven by an expansion of the services and agricultural sectors, while the role of the industrial sector was relatively modest. More recently, annual growth rates have declined slightly, but still remain at high single-digit levels. Growth in the

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<sup>1</sup> Source: United Nations. According to the Ethiopian Central Statistics Office, the population figure is 82.6 million.

export of goods has also moderated in recent years, and a decline was observed in 2012/13 for the first time since 2008/09. There have been bouts of high inflation in recent years and, while inflation is currently much lower, keeping it down remains a major objective for monetary policy.

3. **Ethiopia is one of the world's poorest countries, but has made substantial progress on social and human development over the past decade.** The country's per capita income of US\$370 is substantially lower than the regional average of US\$1,257, and is among the 10 lowest worldwide.<sup>2</sup> Ethiopia is ranked 173 out of 187 countries in the Human Development Index (HDI) of the United Nations Development Program. However, high 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 the 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). However, because of high population growth, the absolute number of poor people (about 25 million) has remained unchanged over the past 15 years. Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and HDI ranking over the past decade. It is on track to achieve the MDGs related to gender parity in education, child mortality, HIV/AIDS, and malaria. Ethiopia has achieved substantial progress in universal primary education, although it may not meet the MDG target. The reduction of maternal mortality remains a challenge.

4. **The Government of Ethiopia is currently implementing an ambitious Growth and Transformation Plan (GTP) 2010/11–2014/15,** which sets a long-term goal of becoming a middle-income country by 2023, with growth rate of at least 11.2 percent per annum during the plan period. To achieve the GTP goals and objectives, the Government of Ethiopia (GoE) has followed a “developmental state” model with a strong role for the government in many 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 reaffirms the GoE's commitment to human development. Development partners have programs that are broadly aligned with the GTP priorities. The country is also preparing the second phase of the GTP and the development of equitable basic services will continue to be a focus.

### ***B. Multisectoral and Institutional Context of the Program***

5. **Ethiopia has opted for a decentralized model of delivery of basic services in education, health, agriculture extension, water supply and roads which is similar to that recommended in the 2004 World Development Report (WDR) Making Services Work for Poor People.** The 2004 WDR recommended that improving direct and indirect accountability of service providers 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 due to 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 Growth and Transformation Plan. The teachers, health workers, and

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<sup>2</sup> Gross National Income, World Bank Atlas Method.

agricultural extension workers who deliver those services are recruited and managed by the woreda leadership. Local competition for these leadership positions is significant, and office-holders are keen to reach their service delivery targets. This arrangement encourages local authorities to listen to citizens and take responsibility for results. On the other hand, the direct route of accountability is reinforced by measures that strengthen financial transparency and accountability (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 (instituting the independent Ethiopian Institution of the Ombudsman, for example).

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

7. Since 2006 there has been a harmonized partnership of support for service delivery between Government and Development partners through the Protection of Basic Services Program 1 and II (2006, 2009); and Promoting Basic Services 3 Program (PBS3). During this time period much has been achieved. Service delivery at decentralized level has been enhanced building on country owned systems. A common vision for service delivery has been fostered under Ethiopia's Growth and Transformation Program (GTP) and reinforced by harmonized support from Development Partners. Millennium Development Goal (MDG) targets are on track to being met, in part owing to increased access to basic services. For example (i) the under-5 mortality rate has decreased from 123 per thousand in 2005 to 88 per thousand in 2010 (ii) net and gross enrolment rates have dramatically increased and (iii) the share of rural population with access to clean water has increased from 35 per cent in 2004/05 to more than 60 per cent in 2009/10. The on-going poverty assessment work by the World Bank finds that there are three main drivers of poverty reduction in Ethiopia – broad based agriculture growth, targeted programs (such as the Productive Safety Net Program (PSNP)) and improved access to basic services. This implies that improving access to basic services such as education and health not only promotes the long term growth but also helps reduce poverty, contributing to both pillars of the World Bank's global strategy.

**8. While Ethiopia has made great progress in improving basic service delivery access and moving to reach many of the MDG targets by 2015, a lot more effort is needed beyond these targets which includes addressing the horizontal (geographic) and vertical (income/wealth) discrepancies.** The net enrolment rate of the bottom 10% of the woreda's (in terms of results) is 77% below the national average of 83% (it is actually 19% average for the bottom 10% of woredas). Vertical discrepancies are also present with the net enrolment rate of

the bottom quintile being 51% compared to 81% for the top quintile (DHS-2011). Similarly, geographic and vertical discrepancies exist also for health outcomes. For example access to births by skilled attendants (a major driver in reducing maternal mortality) is only 2% in the bottom 10% of woredas compared to the national average of 20%. Similar discrepancies are also observed across income/wealth quintiles with only 2% accessing these services in the bottom quintile compared to 18% in the top quintile (DHS-2011). Access to clean water is only 28% for the bottom quintile whereas it is 91% for the richest. Thus, benefits of growth are not shared equally neither across regions nor across income/wealth groups. The on-going poverty assessment work by the World Bank finds that there are three main drivers of poverty reduction in Ethiopia – broad based agriculture growth, targeted programs (such as the Productive Safety Net Program (PSNP)) and improved access to basic services. This implies that improving access to basic services such as education and health not only promotes the long term growth but also helps reduce poverty, contributing to both pillars of the World Bank’s global strategy.

9. **Woreda block grants are pro-poor, helping the historically disadvantaged groups to catch up,<sup>3</sup> effective in helping Ethiopia reach the MDG targets, and also effective in reducing gender gaps.** The Government is very supportive of the woreda block grants system as they help drive sector development targets and reduce wealth, gender and historical inequities. They have consistently prioritized funding and have increased the share of the federal budget for this. A key challenge to the Government’s program of improving sector results through decentralization has been the ability to retain staff, particularly specialized agriculture extension workers, health extension workers and financial management specialists at the local level due to demand from the private sector and NGOs. A significant increase in salaries is planned to address this problem with the lowest paid getting the highest percent increases. This risk will also be mitigated in the future by the increasing supply of trained staff being produced by Ethiopia’s higher education and secondary education institutions.

### ***C. Relationship to CAS/CPS***

10. The proposed program will contribute to the two pillars of the World Bank’s new global strategy - reducing absolute poverty and promoting shared growth. It will also contribute to the two pillars of the Ethiopia CPS – 1) Fostering Competitiveness and Employment and 2) Enhancing Resilience and Reducing Vulnerability. Aligned with this is the goal of bolstering Good Governance and Enhancing State Capacity. Promoting improved access to quality, decentralized basic service delivery is central to all three of these core CPS elements. The program makes the most direct contribution to Pillar 2 on Enhancing Resilience and Reducing Vulnerability, for building human capital through improved education, health, water and agricultural livelihoods promotes the resilience of the Ethiopian population, as does strengthening the network of rural roads. Similarly, because the two CPS pillars are fundamentally linked, the program also contributes to Pillar 1 on Fostering Competitiveness and Employment, for the decentralized basic services that the PBS program supports are essential to competitiveness and employment. Finally, the program supports the Good Governance foundation, in that it promotes woreda-level transparency and accountability and strengthens the decentralized public financial management system and fosters demand-side governance through

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<sup>3</sup> Improving Services for the Bottom 40%, World Bank Report 84215-ET, Washington 2014

social accountability interventions on the ground.

#### ***D. Rationale for Bank Engagement and Choice of Financing Instrument***

11. The proposed Program for Results will build on the successes of the PBS program, which is one of a number of operations supported by IDA to assist the Government in achieving its goals for MDG and poverty reduction. It will replace Program A of PBS which supports woreda block grants through the intergovernmental fiscal transfer system. The PBS will continue through January 2018, but its focus will shift to capacity building at woreda level and improving data collection to monitor results.

12. The program will consolidate many of the gains under PBS through three strategic priorities:

- An increased focus on equity. Here equity will focus on the discrepancies in access to basic services among the different regions and woredas and between genders.
- A sustained focus on deepening citizen's engagement by rewarding results in the areas of social accountability, grievance redressal and financial transparency. This builds on the ongoing operations under PBS 3 but deepens the engagement through ensuring enhanced institutionalization of these arrangements.
- Ensuring adequate capacity for evidence based analysis as a means of promoting quality development data, and ensuring high quality verification of program results.

13. The program will also complement parallel capacity efforts to promote citizens engagement, financial management and results under PBS Subprogram B objectives. A priority is to promote synergies across both programs with a view to significantly advancing capacity building efforts for decentralized service delivery.

14. The program will also continue to provide an important complemented to specific sectoral operations that improve the quality of service delivery. This includes, support to general education through the General Education Quality Improvement Program (GEQIP and GEQIP-2), provide opportunities for improved local agricultural investments through the Agricultural Growth Program (AGP and the planned AGP-2), support improved local water and sanitation (WASH), improve urban and local governance (ULGDP and ULGDP-2) and expand public sector capacity building and governance (recently closed PSCAP, which will be followed by a planned PFM project). Since the new program is expected to support recurrent expenditures for woreda-level basic services, it would have greater impact on those 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. Appropriately, the woreda level expenditures supported by the P4R are heavily biased in favor of the first three sectors, which receive 97% of the funding while water supply receives 2% and rural roads maintenance receives 1% (based on woreda actual expenditures in the recent past).

15. The choice of instrument – a Program for Results – reflects a longstanding aspiration towards a more results and performance focused program. In 2013, the World Bank's Independent Evaluation Group (IEG) produced a Project Performance Assessment Report (PPAR) for PBS 1 already highlighting the suitability of PBS support to intergovernmental fiscal

transfers (Program A) in the form of a PforR. Currently, the Bank provides large scale financial support for expanded service delivery executed by subnational governments. Unlike budget support through a conventional Development Policy Operation, this support is multi-year, does not rely on annual programs built around 'prior actions' and 'triggers', and is in keeping with Paris Declaration principles placing program ownership firmly in the hands of Government. Disbursements are also linked to defined results, as monitored under the Joint Review and Implementation Support (JRIS) missions. In this context the shift towards a Program for Results provides a natural progression for the program.

## **II. Program Development Objective(s)**

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

17. The PDO monitoring indicators will include: (a) maintaining and/or increasing service levels in health, education and agriculture; (b) reducing gap in the health and education indicators between the bottom 20% of woredas and the national median; (c) reducing the gap in health and education indicators between the bottom quintile of rural households and the national rural average measured by DHS surveys between 2011 and 2016; (d) more effective management of resources at the local level proxied by improved fiduciary checks/controls; and (e) expanding transparency and accountability as measured by (i) increased woreda-level Financial Transparency and Accountability (FTA), (ii) scaled-up and increasingly institutionalized Social Accountability (SA) and (iii) improved Grievance Redress Mechanism (GRM) indicators. (f) enhancing safeguards management capacity at the woreda level (g) Improving the availability and timeliness of quality development data

## **III. Program Description**

18. Ethiopia uses the Inter-Governmental Fiscal Transfer System (IGFT) to finance services at the woreda level. Woredas are then responsible for basic education, primary health care, agriculture extension, water supply and rural road maintenance. A World Bank Report (84215-ET) assessed this system to be effective in getting results, pro-poor and adding a good value for money. The World Bank report also noted the importance of transparency and accountability in driving overall results as well as 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 financial management, procurement, and safeguards systems are in place to guarantee appropriate spending of funds.

19. The key challenges to maintaining the success achieved so far include maintaining strong fiduciary controls, adequate ground level service delivery staff and assuring that IGFT grants follow predictable patterns by using regional fiscal distribution formulas. A big challenge for local governments has been the high levels of staff attrition both for 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 whose piloting has resulted into high levels of appreciation among both service providers and the citizenry but it is

still implemented in only less than a quarter of the woredas with increasing demand for similar activities in new woredas and among non-participating kebeles, in a more institutionalized and sustainable manner.

20. The government is currently planning a major increase in staff salaries, particularly for those at the lowest levels and this should help reduce staff attrition at all levels. Specific Disbursement Linked Indicators (DLIs) will be used to assure transparent IGFT grants, maintenance of front-line service delivery staff, better audit follow up and internal audits. The government is also committed to exploring, in a consultative manner, feasible priorities that will ensure a framework for sustaining implementation of social accountability in the medium term is established while embarking on exploring practical ways for institutionalization and sustainability in the medium and long run.

21. The proposed DLIs will focus not only on results but also on reducing geographical and income inequalities in outcomes. There will also be DLIs related to financial transparency, social accountability and grievance redress mechanisms as well as related to fiduciary systems and social and environmental safeguards. DLIs related to sector results and equity of results and social accountability will be in the form of outcomes, whereas DLIs related to maintaining the real value and transparency of per capita transfers and maintaining service levels will be outputs. Similarly, DLIs related to transparency and grievance redress mechanism as well as fiduciary systems will be intermediate outputs or actions. Finally, given the importance of the quality and reliability of development data, especially for P4R operations, there will be one DLI linked to the implementation of key surveys and another to assess quality of administrative data. All the DLIs will be measurable either as absolute targets or as percentages or as a specific action completed to avoid ambiguity.

22. The choice of DLIs reflect the Core Principles under PBS 3, which were devised to track to monitor common objectives and agreements and were derived from the Growth and Transformation Plan (GTP). The DLIs reflect progression in these principles, with a revised focus as follows:

- **Effectiveness** i.e. maintaining effective service delivery through adequate sectoral resource allocation, balanced intra-sectoral allocation, and results achieved
- **Sustainability** i.e promoting continued government financial support and financing sources for decentralized basic services,
- **Additionality and Fairness** i.e. Ensuring that Inter-Governmental Fiscal Transfers follow a rules-based approach
- **Equity** i.e. reducing geographic and wealth inequity amongst bottom 20% of woredas and income quintiles.
- **Transparency** i.e. providing stakeholders with more information about resource flows, standards and results through enhanced institutionalization of social accountability, financial transparency and grievance redressal mechanisms.
- **Predictability** i.e. predictability principle through disbursement for results achieved.

#### IV. Initial Environmental and Social Screening

23. The P4R will be implemented throughout the country by local government authorities in

collaboration with respective sector specialists operating at the local and regional levels. In P4R operations, environmental and social management procedures and processes are designed to (a) promote environmental and social sustainability in the program design; (b) avoid, minimize, or mitigate against adverse impacts; and (c) promote informed decision-making relating to a program's environmental and social effects.

24. The P4R is in a unique position to contribute to the mainstreaming of environmental and social issues in program design and implementation at local level, particularly in the five basic sectors. Strengthening woreda and regional environmental and social management systems and staff capacity to implement that system under the P4R would be a great opportunity given the size and coverage of the program and experience so far gained in country, indicates that aligning the government's safeguards system with the World Bank's safeguards policies through incentive based disbursement that rewards performance, will strengthen environmental and social safeguards at the federal, regional, and woreda levels through the introduction of new policies that are consistent with the spirit of the existing legal provisions, regulations and guidelines. The design of this Program will incorporate these measures in the Program Action Plan.

25. Most of the regions have established a Land and Environment Protection Office at woreda level. Though the capacity of these offices is limited, it provides an opportunity to mainstream environmental and social issues into development planning and implementation at local levels. The P4R has to build on the experiences gained through the previous phases to encourage best practices in environmental and social management in the planning and implementation of programs. Building on the capacity building effort of the previous PBS phases on environmental and social assessment, the P4R could support the five basic services sectors to mainstream environmental and social assessment, including consultation and participatory approaches to program planning and implementation at local levels. This would help the sectors and other local government programs to provide services to the community in a more environmentally and socially sustainable manner. Further, as part of our due diligence function and in accordance with OP/BP9.00 on PforR, the Bank will conduct Environment and Social Systems Assessment (ESSA), which includes a comprehensive review of systems and procedures to be followed by the government in the regional and woreda levels to address social and environmental issues associated with the Program and findings of this assessment will inform design changes and features and the draft ESSA report will be disclosed to the public prior to appraisal.

## V. Tentative financing

| Source:            | (\$m.)      |
|--------------------|-------------|
| Borrower/Recipient |             |
| IBRD               |             |
| IDA                |             |
| Others (specify)   | 600,000,000 |
| Total              | 600,000,000 |

## VI. Contact point

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