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Report No: 115228-ET

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 431 MILLION  
(US\$600 MILLION EQUIVALENT)

AND ADDITIONAL GRANT

IN THE AMOUNT OF SDR 72 MILLION  
(US\$100 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

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

August 22, 2017

Social Protection and Labor Global Practice  
Africa Region

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**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective June 30, 2017)

Currency Unit = Ethiopian Birr (ETB)  
ETB 23.23000164 = US\$1  
SDR 0.71870575 = US\$1

**FISCAL YEAR**  
July 7 – July 6

**ABBREVIATIONS AND ACRONYMS**

ACG	Anticorruption Guidelines
AF	Additional Financing
AfDB	African Development Bank
AgMIS	Agricultural Management Information System
ANC	Antenatal Care
BoFED	Bureau of Finance and Economic Development (regional)
BP	Bank Policy
CDP	Commune Development Program
CE	Citizen Engagement
COPCD	Channel One Programs Coordinating Directorate
CPF	Country Partnership Framework
CSA	Central Statistical Agency
CSO	Civil Society Organization
DA	Development Agent
DfID	U.K. Department for International Development
DHS	Demographic and Health Survey
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Result
ECY	Ethiopian Calendar Year
EDQAF	Ethiopian Data Quality Assessment Framework
EDRI	Ethiopian Development Research Institute
EMIS	Educational Management Information System
ENADA	Ethiopian National Data Archive
EIO	Ethiopian Institute of Ombudsman
ERA	Ethiopian Roads Authority
ESAP	Ethiopia Social Accountability Program
ESIA	Environmental and Social Impact Assessment
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
F&C	Fraud and Corruption
FEACC	Federal Ethics and Anticorruption Commission
FM	Financial Management
FPPAA	Federal Public Procurement and Property Administration Agency

FTA	Financial Transparency and Accountability
FY	Fiscal Year
GEQIP	General Education Quality Improvement Project
GoE	Government of Ethiopia
GPI	Gender Parity Index
GPS	Global Positioning System
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GTP	Growth and Transformation Plan
HEW	Health Extension Worker
HMIS	Health Management Information System
IDA	International Development Association
IBEX	Integrated Budget and Expenditure System
IEG	Independent Evaluation Group
IFA	Integrated Fiduciary Assessment
IFMIS	Integrated Financial Management Information System
IFPRI	International Food Policy Research Institute
IFR	Interim Financial Report
IGFT	Intergovernmental Fiscal Transfer
IPF	Investment Project Financing
ISR	Implementation Status and Results Report
IT	Information Technology
JAP	Joint Action Plan
JRIS	Joint Review and Implementation Support
KPI	Key Performance Indicator
M&E	Monitoring and Evaluation
MA	Management Agency
MAP	Management Action Plan
MDTF	Multidonor Trust Fund
MEFF	Macroeconomic and Fiscal Framework
MIS	Management Information System
MoANR	Ministry of Agriculture and Natural Resources
MoE	Ministry of Education
MoEFCC	Ministry of Environment, Forest, and Climate Change
MoFEC	Ministry of Finance and Economic Cooperation
MoH	Ministry of Health
MoLSA	Ministry of Labour and Social Affairs
MoU	Memorandum of Understanding
MoWIE	Ministry of Water, Irrigation and Electricity
NER	Net Enrollment Rate
NGO	Nongovernmental Organization
OFAG	Office of the Federal Auditor General
ORAG	Office of the Regional Auditor General
OM	Operational Manual
OP	Operational Policy
OPRC	Operational Procurement Review Committee

PAP	Program Action Plan
PBS	Promoting Basic Services (formerly, Protection of Basic Services)
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PforR	Program-for-Results
PFM	Public Financial Management
PHC	Population and Housing Census
PIU	Project Implementation Unit
PIM	Project Implementation Manual
PPSD	Project Procurement Strategy for Development
PSIA	Poverty and Social Impact Assessment
PSNP	Productive Safety Net Project
REACC	Regional Ethics and Anticorruption Commission
RI	Results Indicator
SA	Social Accountability
SAIPs	Social Accountability Implementing Partners
SARA	Service Availability and Readiness Assessment
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goal
SDS	Service Delivery Secretariat
SDR	Special Drawing Rights
SNNP	Southern Nations Nationalities and People
SORT	Systematic Operations Risk-Rating Tool
STEP	Systematic Tracking of Exchanges in Procurement
STWG	Safeguards Technical Working Group
TA	Technical Assistance
ToR	Terms of Reference
VERA	Vital Events Registration Agency
WaSH	Water, Sanitation, and Hygiene
WoFED	Woreda Office of Finance and Economic Development

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Practice Manager:	Dena Ringold
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**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA**  
**PROGRAM-FOR-RESULTS ENHANCING SHARED PROSPERITY THROUGH**  
**EQUITABLE SERVICES (ESPES)**

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**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA**

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

**ADDITIONAL FINANCING DATA SHEET**

<b>Basic Information - Additional Financing</b>	
Country Director: Carolyn Turk	Sectors: Education (Primary education); Agriculture, fishing, and forestry (General agriculture); Health and other social services (Health); Health and other social services (Other social services)
Practice Manager/Senior GP Director: Dena Ringold/Michal Rutkowski	
Team Leader: Qaiser Khan/Victoria Monchuk/Yoseph Abdissa	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)
Program ID: P161373	Expected Effectiveness Date: December 1, 2017
	Expected Closing Date: May 31, 2023
<b>Basic Information - Original Program</b>	
Program ID: P151432	Effectiveness Date: September 15, 2015
Program Name: Enhancing Shared Prosperity through Equitable Services (ESPES)	Expected Closing Date: May 1, 2019
Lending Instrument: Program for Results	

AF Project Financing Data						
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Other: Proposed terms: Standard						
AF Financing Plan (US\$, millions)						
Source				Total Amount (US\$, millions)		
Total Program Cost:				21,401.3		
Cofinancing:				560.0		
of which Austria:				11.0		
Borrower:				19,541.3		
Total Bank Financing:				1,300.0		
IBRD				0		
IDA				1,300.0		
Additional Financing				700.0		
Recommitted				0		
Client Information						
<b>Recipient:</b> Ministry of Finance and Economic Cooperation (MoFEC) <b>Responsible Agency:</b> Channel One Programs Coordinating Directorate (COPCD) Contact Person: Fisseha Aberra Telephone No.: +251-11-113247 Email: faberrak@gmail.com						
AF Estimated Disbursements (Bank FY/US\$, millions)						
FY	2018	2019	2020	2021	2022	2023
PforR Annual	30	190	240	140	0	0
PforR Cumulative	30	220	460	600	600	600
IPF Annual	10	15	20	20	25	10
IPF Cumulative	10	25	45	65	90	100
Total Annual	40	205	260	160	25	10
Total Cumulative	40	245	505	665	690	700
Project Development Objective and Description						
Original Program Development Objective: Improve equitable access to basic services and strengthen accountability systems at the decentralized level.  Additional Financing Program Development Objective: Improve equitable access to basic services and strengthen accountability systems at the decentralized level.  Program description: This proposed additional credit and grant is sought to help finance the expenditures associated with the Government of Ethiopia's Inter Governmental Fiscal Transfer system which provides block grants to region and Woreda levels for delivering Basic Social Services such as health care, education, agriculture services, rural roads, and water and sanitation.						
Summary of proposed changes:						
Change in Program's Development Objectives				Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Change in Program Scope				Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Change in Results Framework				Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>		
Change in Legal Covenants				Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>		
Change in Loan Closing Date(s)				Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>		
Cancellations Proposed				Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Change to Financing Plan				Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Reallocation between and/or Change in DLI				Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>		

Change in DLI Verification Protocol	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
Change in Key Parameters (Disbursement Arrangements, Institutional Arrangements, Technical, Fiduciary, and Environmental and Social aspects)	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Change in Program Action Plan	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
Other Change(s)	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
<b>Exception to Policies</b>		
Is approval of any policy waiver sought from the Board (or MD if RETF operation is RVP approved)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Has this been endorsed by Bank Management? ( <i>Only applies to Board approved operations</i> )	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Does the Program require any exception to Bank policy?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Has this been approved by Bank Management?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
<b>Conditions and Legal Covenants:</b>		
<b>Financing Agreement Reference</b>	<b>Description of Condition/Covenant</b>	<b>Date Due</b>
Schedule 2, Section V.C.1(b) of the Financing Agreement: Notwithstanding the provisions of Section V.A of Schedule, in respect of the Project, no withdrawal shall be made under Category (1) for Eligible Expenditures until the Recipient has carried out following to the satisfaction of the Association:	i) furnished to the Association, a medium term staffing plan, prepared in accordance with terms of reference acceptable to the Association, for implementation of the Program by MoFEC at the Regional and Woreda levels;	Disbursement condition
	ii) have in place a sector coordinator within COPCD, with qualifications, experience and terms of reference acceptable to the Association, responsible for coordinating Program and Project among the health, education, and agriculture sectoral implementation partners; and	Disbursement condition
	iii) adopted the PIM to be prepared in accordance with provisions set forth in Section I.C.2(a) of this Schedule 2 of the Financing Agreement and which PIM shall have been approved by the Association.	Disbursement condition
Schedule 2, Section V.C.1(c) of the Financing Agreement: Notwithstanding the provisions of	the actions listed in sub-paragraph (b)(i); (b)(ii); (b)(iii) of the Financing	Disbursement condition



Section V.A of Schedule, in respect of the Project, no withdrawal shall be made under Category (2) for Eligible Expenditures until the Recipient has carried out:	Agreement and adopted the Social Accountability Implementation Plan to be prepared in accordance with provisions set forth in Section I.C.2(b) of this Schedule 2 of the Financing Agreement and which Social Accountability Implementation Plan shall have been approved by the Association.		
Schedule 2, Section I.C.3(a) of the Financing Agreement:	The Recipient, through COPCD, shall not later than May 31 <sup>st</sup> of each year, prepare and furnish to the Association, an annual work plan setting out the program of activities and training proposed for implementation under the Project during the following EFY, together with a proposed procurement plan and budget for the purpose.	Dated covenant Annually	
Team Composition:			
Bank Staff			
Name	Title	Specialization	Unit
Qaiser Khan	Lead Economist	Team Leader (ADM responsible)	GSP01
Victoira Monchuk	Sr. Economist	Team Leader	GSP01
Yoseph Abdissa Deressa	Sr. Social Protection Specialist	Team Leader	GSP01
Binyam Bedelu	Sr. Procurement Specialist	Procurement	GGO01
Demelash Demssie	Sr. Operations Officer	Procurement	GSP01
Abiy Demissie Belay	Sr. Financial Management Specialist	Financial Management	GGO25
Eric Brintet	Lead Financial Management Specialist	Financial Management	GGO25
Laura Campbell	Social Protection Specialist	Social Accountability/ Social Safegaurds	GSP01
Alex Kamurase	Sr. Social Protection Specialist	Social Accountability	GSP01
Antonia T. Koleva	Sr. Operations Officer	Team Member	GSP01
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Belay Addise Cheffik	Sr. Social Protection Specialist	Team Member	GSP01
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<b>Non Bank Staff</b>			
<b>Name</b>	<b>Title</b>	<b>City</b>	
Ethiopia Belay	Consultant	Addis Abeba	

## I. Introduction

1. This Program Paper seeks the approval of the Executive Directors to provide an additional financing (AF) in an amount of SDR 503 million (US\$700 million equivalent) to the Enhancing Shared Prosperity through Equitable Services (ESPES) Program (parent program- P151432, Credit No. 5716-ET) for the Federal Democratic Republic of Ethiopia. The AF is composed of an IDA credit in the amount of SDR 431 million (US\$600 million equivalent), and an IDA grant in the amount of SDR 72 million (US\$100 million equivalent). The closing date of the parent project will be extended from May 1, 2019 to May 31, 2023 to cover the scale up of Disbursement Linked Indicators (DLIs) and to implement the capacity-building investment component.

2. The US\$600 million ESPES program was approved on September 15, 2015 and became effective on December 11, 2015. The disbursement rate is 62.12 percent as of August 2, 2017 and will continue to rise rapidly in the next six months. On the current trajectory, program financing will be exhausted by the middle of 2018. In addition, the Protection of Basic Services 3 (PBS-3, P128891) project which has been running in parallel to the ESPES program and has provided critical funding (US\$20 million) for improving citizen engagement (CE), environmental and social management systems (ESMSs), and fiduciary systems at the Woreda (district) level will close and be exhausted by end-2018. As such, even though the World Bank's support to the overall Government Woreda block grant program remains below 10 percent, the program faces a resource gap, which has arisen due to additional requirements especially for CE and also needs to stretch some of the DLI targets which have already been reached.

3. This proposed additional credit and grant is sought to help finance the expenditures associated with the Government of Ethiopia's Intergovernmental Fiscal Transfer (IGFT) system which provides block grants to regions and Woredas for delivering basic social services such as health care, education, agriculture services, rural roads, and water and sanitation. The AF would: (a) scale up existing DLIs including increasing existing targets; and (b) introduce new DLIs and new DLI targets, especially in the areas of nutrition, CE, fiduciary management, and environmental and social safeguards management. Alongside the AF, the operation is also being restructured into a hybrid program-for-results (PforR) including an investment component to provide capacity building support for CE, fiduciary management, ESMS, improved data, and program management. Performance of the operation has been satisfactory over the last 18 months.

## II. Background and Rationale for Additional Financing in the amount of US\$700 million and restructuring

4. **The objective of the ESPES program is to improve equitable access to basic services and strengthen accountability systems at the decentralized level.** The program is anchored around four sets of key results: (a) ensuring equitable access to basic services; (b) enhancing citizens' engagement, environmental and social management capacity; (c) deepening fiduciary aspects of basic service delivery; and (d) ensuring quality data access and results.

5. The ESPES program supports Ethiopia's Woreda block grant system (IGFT) which provides funding to all Woredas (close to 1,000) in the country. Woredas are responsible for delivering basic services in health, education, agriculture, water, and rural roads. IGFT is a decentralized system of governance that supports flows of information, resources and accountability between different levels of Government and between service providers and citizens (see Box 1). This system has been found to be effective in improving equitable access to services as indicated in the Systematic Country Diagnostic (SCD), the Poverty Assessment, and the Technical Assessment undertaken as part of the preparation of the ESPES program. Government ownership and commitment to the program also continues to be very strong.

6. **The ESPES program finances Woreda-level recurrent spending, mainly salaries, to deliver basic services.** Over 80 percent of the block grants go to recurrent costs—mainly Woreda-level salaries for teachers, health care workers, agriculture development agents (DAs), and administrators, and also some small operational costs. On average, education, health, and agriculture consume 58 percent of Woreda expenditures. Capital expenditures for school constructions, roads, and so on are not financed through the ESPES program and do not flow through the block grant system. Rather these are supported by the budgets of line ministries. Annex 7 describes the full expenditure framework and defines the ESPES program

**Box 1. The Decentralized Woreda Block Grant System in Ethiopia**

Ethiopia's decentralized administrative structure involves regions, zones, and Woredas, and the constitutional and legal framework commit the Government to maintaining the integrity and capacity of decentralized administration down to all Woredas. The federal government uses an allocation formula approved by the House of Federation to distribute block grants to all regions. Most of the regions also use formulas to allocate block grants to all Woredas. This system is called the IGFT. The Woredas rely mainly on these block grant transfers to deliver important services such as education, agriculture extension, health services, rural roads, 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 doubled over the last five years, from US\$2 billion in FY2012/13 to US\$4 billion in FY2016/17. All regions except the Addis Ababa city administration receive block grant allocations from the federal government, putting the estimated number of beneficiaries at about 91 million. Currently, there are more than 1,000 Woredas in the country. Annex 7 lays out the expenditure framework and program boundary in detail.

The ESPES program releases funding for the block grant program against what is budgeted to go from the federal government to regions at the start of the fiscal year. Each year, the full block grant amount is channeled onto regions, which keep around 40 percent of the grant for financing regional level expenses, which are mostly on building infrastructures including schools, health centers, hospitals, roads, and so on. The remainder is channeled onto Woredas. The Woredas' share constitute the ESPES program expenditure framework. Budget execution is monitored by continuous audits.

boundary which is the block grant system and its contribution to basic service delivery at the decentralized levels.

7. **Additional resources for important system strengthening and capacity building activities are needed.** These had been financed in the past by PBS-3, so the AF would include an investment component. The objectives of the system strengthening and capacity building activities are to improve the Government's federal-, regional-, and Woreda-level administrative systems for implementing and monitoring the block grant program and for improving the efficiency and effectiveness of delivering basic services to all Woredas. For instance, the safeguards capacity-building element would benefit all infrastructure sectors because the Woredas are responsible for implementing resettlement, compensation, and grievances for all local infrastructure projects. In addition to supporting good governance measures, support will be provided to the Central Statistical Agency (CSA) to improve quality and availability of development data to monitor results.

8. **The evolution of the ESPES program and its predecessor PBS.** PBS started in 2006 during a period of fiscal crisis and was designed to provide assurance that the Woreda block grant program had enough resources to provide basic services at the decentralized level. Development partners covered 47 percent of block grant expenditure during PBS' first phase. At the start of the program, it was clear that development partners not only needed to finance the block grants but also improve the fiduciary and other systems at the level of the newly empowered Woredas. Initially, the focus was on fiduciary systems but moved on to include CE and later added safeguard management and anticorruption. These systemic reforms not only benefit the PBS/ESPES program but all programs executed with support of decentralized Woredas in education, health, agriculture, water and sanitation, and rural roads. After three phases, PBS moved to

using the PforR approach as recommended by an Independent Evaluation Group (IEG) Project Performance Audit in 2013. The first PforR was approved in September 2015 and was renamed ESPES.

9. In July 2013, the Board authorized an Inspection Panel investigation following claims made by two representatives on behalf of 26 Anuak people from the Gambella region of Ethiopia that PBS-3 was linked to human rights abuses that allegedly occurred under the Government's Commune Development Program (CDP) in Gambella. The requesters live in refugee camps in South Sudan and Kenya, and asked for their identities to be kept confidential. The Panel's Investigation Report (No. 9184-ET), dated November 21, 2014, concluded that the alleged harm which the Panel had investigated did not stem from PBS-3. However, the Panel found that there was an operational interface, due to geographical and sectoral overlap, between the PBS and CDP, which the PBS-3 risk assessments did not adequately consider. In the Management Report, World Bank management submitted a Management Action Plan (MAP) to address concerns, in particular with regard to risk assessment, financial management (FM), and livelihoods, which the Board approved on February 27, 2015. Many of actions in the MAP were included as DLIs in the original ESPES program. Currently, only one MAP action is yet to be completed—financing of the next phase of the Ethiopia Social Accountability Program (ESAP, P129534). Some financing for the ESAP is included in the investment component of the AF and the whole MAP will be completed once the Board approves this AF.

10. **Progress and experience to date.** The ESPES program ratings for progress towards achievement of development objective and overall implementation progress are rated Satisfactory, as well as other project ratings except the fiduciary rating which was rated Moderately Satisfactory, in the latest Implementation Status and Results Report (ISR) from April 2017. While disbursements against the DLIs are progressing well, the implementation of the Program Action Plan (PAP) was somewhat delayed during the first year of the program. Carrying out the PAP<sup>1</sup> on time is a covenant of the original project and the activities in the PAP are meant to strengthen Government systems and facilitate the achievement of outcomes related to service delivery. Based on discussions with Ministry of Finance and Economic Cooperation (MoFEC) in November 2016 and January 2017, the World Bank's team identified that the shortcoming mainly stemmed from lack of attention to these activities by the implementing agency. It was clarified that more emphasis needs to be placed on detailed planning and budgeting of the activities included in the PAP as they link to the achievement of the DLIs. Since then, DLI reporting has been undertaken on a regular basis and implementation progress of the PAP activities has improved. The World Bank is continuing to follow up with the Government regarding the compliance of other covenants including continuous financial auditing and the quality of the DLI verification protocols. To ensure rigorous DLI verification, the Government has developed a new template for verifiers to use which was cleared by the World Bank in May 2017.

11. **Block grant resources have a demonstrated record of promoting service delivery for the poor at the decentralized level.** Over the last decade, Ethiopia's overall record of achievement in basic service delivery in health, education, and agriculture outcomes has been remarkable (Table 1). The general logframe underpinning the ESPES program centers around the effectiveness of the Woreda block grant system mechanism in expanding service delivery, supported by robust national accountability systems through CE, fiduciary management, environmental and social management capacity (ESMC), and quality data systems. 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 Ethiopia Poverty Assessment (2014) cited 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-

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<sup>1</sup> The Government focused on the DLI early and actually did not look carefully at the PAP which included, in many cases, intermediate activities designed to successfully achieve the DLIs. This has caused some difficulty with reaching a couple of DLIs and/or providing adequate verification for some DLIs.

poor sector spending as a share of the general Government budget has increased steadily from 28 percent in 1999/2000 to 66 percent in 2015/2016. A Poverty and Social Impact Assessment (PSIA) for the PBS project (the predecessor to the ESPES PforR) found that Woreda-level spending was more effective in reaching the bottom 40 percent than national spending. The PforR DLIs support improved outcomes in human development areas; improved vertical and horizontal (gender) equity in the access and quality of services; improved governance and fiduciary system for managing basic services and related expenditures at the Woreda-level; and expanded CE and improved environmental and social safeguards in the delivery of services.

**Table 1. Evolution of Key Service Delivery Indicators and Results during PBS-ESPES Program Period 2006–2016<sup>a</sup>**

Indicator	Start of PBS 2006	2016	Source
Child mortality per 1,000	72	20	Demographic and Health Survey (DHS) 2016
Contraceptive acceptance rate modern method	14%	36%	DHS 2016
Access to antenatal care	28%	62%	DHS 2016
Immunization (DPT3)	72.6%	97%	Health Management Information System (HMIS)
Net enrollment rate (NER) grade 1-8	77.5%	99%	Educational Management Information System (EMIS)
Gross gender parity index grades 1-8	0.84	0.92	EMIS
Access to improved latrine	38%	67%	DHS 2016
Households with access to agriculture extension services	4.04 million	15.8 million	Admin data from Ministry of Agriculture and Natural Resources (MoANR)
Cereal productivity in quintals per hectare	15	21.5	Agriculture Sample Surveys
Access to improved rural water supply	46%	63%	Ministry of Water and Energy
Percent of kebeles connected to all weather roads	20%	75%	Ethiopian Roads Authority (ERA) administration data

*Note:* a. These results parallel the PBS/ESPES program period and can be attributed to decentralized funding at Woreda level which PBS has cofinanced from the beginning. The book, entitled ‘Improving Services for the Bottom Forty Percent: Lessons from Ethiopia’ (World Bank, 2014) documents the link. The results cannot solely be attributed to PBS which mainly financed Woreda-level salaries. Inputs from sector spending, including other World Bank, projects also played a role.

12. Despite the success, there is room for improvement especially in enhancing socioeconomic, gender, and geographic equity in access to quality services. For instance, while there have been impressive advancements in many health and education outcomes at the national level there are large variances among geographic areas: the average Net Enrollment Rate (NER) in grades 5–8 for the bottom 20 percent of Woredas for that indicator is 40 percentage points lower than the national average and the Penta 3 vaccination coverage in the bottom 20 percent Woredas for that indicator is 41 percentage points lower than the national average. A similar trend is identified in other indicators such as dropout rates, Gender Parity Index (GPI) for most education indicators, and skilled birth attendance rates. The Incremental Technical Assessment in Annex 7 provides detailed information.

13. The World Bank’s analytic work has established the critical importance of CE; ESMS systems; and effective fiduciary systems in establishing results including quality of services. Over the past few years, Ethiopia’s service delivery efforts have been bolstered by the game changing CE activities. The experience so far in Ethiopia shows that supporting CE alongside service delivery programs has the potential of

radically improving governance and accountability of service providers to citizens. For this reason, the ESPES program and its proposed AF have a strong focus on institutionalizing the gains in social accountability (SA), fiscal transparency, and grievance redress functions as a way of improving the demand side of service delivery. The DLIs for the ESPES program are also critical to implementing the MAP agreed following the Inspection Panel investigation of PBS-3.

14. **Rationale for AF.** The Government requested the AF as one of their priorities for FY18 during preparation of the new Country Partnership Framework (CPF) and has followed up the request with a letter dated November 16, 2016. The main reasons for the Government request are: (a) 80 percent of the original PforR funds will be disbursed by the time the AF is effective; (b) additional capacity building for the areas noted above needs to be provided; (c) more predictable funding for the Woreda block grant system needs to be provided; (d) the focus on equity in the access and quality of services needs to be deepened; and (e) service delivery is to be supported by enhanced decentralized capacity especially in the areas of SA, financial transparency, and grievance redress.

15. **Moreover, the Government's share in financing the Woreda block grant system has been increasing rapidly.** Even with the additional International Development Association (IDA) resources for the ESPES program, the overall IDA share would drop from 9 percent (FY16–18) to 4 percent (FY19–21) of Woreda block grant costs (see discussion on the expenditure framework and Table 2). Hence, even with the proposed IDA additional resources, the donors' share in the Woreda block grant system will be very low. In fact, the IDA resources allocated to the ESPES program leverage good transparent governance for around 15 times more Government resources which also have to meet these standards.

16. **The team's assessment is that the request for AF for the ESPES program is justified for four reasons.** The first reason is because of its satisfactory performance to date. Second, it has the ability to scale up and deepen CE activities for improving basic social services. Third, it provides three additional years of financing to improve service delivery outcomes and the scope of the DLIs will be expanded especially with regard to enhancing gender and geographic equity in access to services, scaling up CE, strengthening of environmental and social safeguards systems, as well as improved Woreda-level governance systems. While the DLIs are linked to disbursement over three years, the investment component will run for five years requiring the project closing date to be extended accordingly.<sup>2</sup> Fourth, on a technical level, the Government's request for the investment component is justified to ensure that local governments have the capacity to sustain the policy changes and targets to be achieved under the DLIs. This is consistent with the broader efforts of development partners who have been collaborating very effectively around PBS and more recently, around the ESPES program.

17. **Alignment with the CPF and development partner coordination.** The Ethiopian Government's second five-year rolling plan, Growth and Transformation Plan II (GTP II), aims to expand coverage of basic services and improve their quality as a key mechanism to achieve the Sustainable Development Goals (SDGs). One of the nine strategic pillars of GTP II—'accelerate human development and technological capacity building and ensure its sustainability'—is directly related to this ESPES program. The ESPES program support to basic service delivery in Ethiopia is very closely aligned to the SCD (2016, Report No: 100592-ET, March 30, 2016) and the recently approved Ethiopia CPF FY18–21 (Report No. 115135-ET,

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<sup>2</sup> The activities supported by the investment component include work that will take longer than three years to execute. The most critical of these is the SA component of CE. It will need to run in parallel with multidonor trust fund (MDTF) for the third phase of the ESAP 3 which will roll out from the current level of 223 Woredas to 500 Woredas. The experience during ESAP 1 and ESAP 2 indicates that this cannot be hurried and that the partner nongovernmental organizations (NGOs) need sufficient time and confidence in funding over that time. In addition, the statistics component will also support the next round of household income and expenditure survey which also needs a lead period and confidence in guaranteed funding.

May 22, 2017). The SCD identified low human development outcomes as a binding constraint in Ethiopia's development. Moreover, it highlighted that inequities in access to services and poor quality of basic services reduced health and education outcomes. Of the 15 focus areas of the CPF, the ESPES program covers 8: improved equity in utilization of quality health services; improved basic education learning outcomes;

### **Box 2. Gender in ESPES**

Ethiopia's GTP II lays out a bold agenda for women's empowerment and participation. The World Bank's SCD FY18–22 highlights the key gender-related constraints to boosting productivity and women's contribution to growth. This involves, among other things, a greater inclusion of gender-disaggregated outcome indicators in project and program results matrices.

The ESPES program contributes to addressing gender-related constraints at a number of levels. These include:

- To close the gender gap in agricultural productivity by designing extension services that are better tailored to women farmers' needs, the ESPES program monitors the increase in the number of female farmers who access agriculture extension services. The ESPES program increases the share of agriculture DAs that are female. Having female DAs has been identified as one of the more important factors for improving women farmer productivity and agriculture productivity knowledge.
- To maximize the impact of interventions aimed to building the human capital necessary for a more productive economy in the future, the ESPES program focuses on a number of things. In education, the ESPES program promotes gender equality by including a DLI on girls' completion rates in grade 8 and monitors gender parity rates grades 5–8 and that the learning environment is conducive to female students (availability of toilets in schools). In health, the ESPES program improves maternal health outcomes by addressing supply-side bottlenecks through investments in health extension workers (HEWs) who are qualified to deal with post-partum bleeding and other factors considered important to reduce maternal mortality rates. Moreover, the ESPES program monitors a number of other indicators closely related to maternal health outcomes including the share of births attended by skilled birth attendants, the rate of antenatal care visits (+4), and the availability of water at health facilities where births occur. In addition, it addresses demand-side gaps through communications campaigns targeted largely to women. In nutrition, front line service delivery providers in Productive Safety Net Project (PSNP – P163438) Woredas will be trained so as to better assist mothers to improve household nutrition-related practices. The program also contributes to increasing the share of PSNP mothers who have frequent contact with HEWs.
- To build women's agency, and enable them to more fully participate at all levels of decision making, the ESPES program focuses on strengthening women's role in CE and SA mechanisms through quotas for women's participation in projects as well as capacity building for women and women's groups, and encouraging women's participation in Woreda pre-budget discussions.

improved long-term health, employability, and productivity of the population through the multisector Early Years Agenda; increased access to urban and rural water and sanitation; improved management of natural resources and climate risks; increased capacity and improved governance in service delivery; strengthened CE holding Government entities accountable; and improved domestic statistical capacity for enhanced evidence-based policy making and monitoring. The role of the ESPES program in reducing poverty and improving shared prosperity in Ethiopia is key. The contribution of the ESPES program to the CPF's gender-related goals is summarized in Box 2.

18. **In 2015–2016 a new common platform for development partners' support to basic service delivery in Ethiopia was introduced and the PBS secretariat was replaced with a Service Delivery Secretariat (SDS) that currently coordinates and supports development partner-supported programs and dialogue on decentralized service delivery.** This platform is supported by the African Development Bank (AfDB), U.K. Department for International Development (DfID), European Union, Austria, and Italy.

## **III. Proposed Changes**



19. **The proposed changes are listed in the check list in the datasheet.** They include: a) changes to the results framework, b) changes to the legal covenants, c) changes to the loan closing date, d) reallocation between and changes to DLIs, e) changes to the DLI verification protocols, f) changes to the program action plan, and g) other changes including adding an investment component for capacity building and technical assistance. These are described below.

20. **The proposed AF will retain the development objective of the original ESPES program.** An additional US\$600 million credit will be provided through DLIs in the PforR component and a US\$100 million grant to the proposed investment component. Both the PforR and the investment component will support the same set of Project Development Objective (PDO) results areas as the original ESPES program and PBS-3 with a special focus on building local government capacity to achieve and sustain all of the results areas. Therefore, the PDO results areas for the AF will be: (a) ensuring equitable access to basic services; (b) enhancing CE and environmental and social management capacity; (c) deepening fiduciary aspects of basic service delivery; and (d) ensuring quality data access and results. Within results area (a), there will be an expanded emphasis on gender and geographic equity in the access to basic services. Results area (d) will be modified to include support to the CSA to improve information and data related to equity of decentralized resource allocations and the regional needs for service delivery.

21. **Overall, the program is taking an outcome-driven approach.** The outputs and intermediary outcomes achieved under the ESPES program will be scaled up to generate real outcomes under the ESPES program AF. In sum, the main proposed changes in the AF include the following:

- (a) Sectoral results will focus strongly on improving results for the worst-performing regions and bottom 20 percent of Woredas and will have a gender focus especially in education and agriculture (equity focus).
- (b) New sectoral outcome indicators such as girls' school completion rates will be added (which is also helped by the equity focus under [a] above).
- (c) A new DLI will be added to strengthen results in nutrition in food-insecure PSNP Woredas to further the Early Years agenda (which is also helped by the equity focus under [a] above).
- (d) Sector results will also bring to the front sectoral coordination including strengthening quality of frontline service providers and monitoring availability of adequate utilities at schools and health facilities.
- (e) Attention is deepened on CE in the areas of SA, grievance redress, and financial transparency (including boosting female participation) which will all be scaled up and deepened.
- (f) Targets will be scaled up and results indicators (RIs) will focus on real outcomes for improving fiduciary capacity and performance, fraud and corruption (F&C) control, and environmental and social management capacity and performance.
- (g) Ensuring adequate capacity for evidence based analysis as a means of promoting quality development data, producing gender disaggregated data and analysis, ensuring high quality verification of PforR results, and strengthening the capacity of the CSA to produce and disseminate timely and reliable statistics.

22. The choice of DLIs has been driven in part by the need to balance between outcomes in service delivery and systemic changes in governance, CE, and safeguards management. The balance of DLIs between results and system improvements in the ESPES program has to be weighed against not just the development results in this program but also the development results in all programs using the decentralized delivery systems. This program supports the local-level systems on which many programs and projects in agriculture, health, education, water supply, and rural roads rely, for Woreda-level support.

23. **Nutrition is a new ‘sector’ of the project.** It is specifically added to the multisectoral program because of the difficulty in tackling malnutrition from any single sector (health, agriculture, water, safety nets, and so on). The decentralized service delivery nature of the ESPES program will use the convening power of MoFEC and its decentralized agencies and bring together a number of nutrition-related initiatives (community-based nutrition program, agricultural extension services, the PSNP, and so on) at the Woreda level to jointly address malnutrition in the PSNP Woredas, which are highly affected by food insecurity and drought. As such, focusing on the PSNP Woredas where nutrition outcomes are significantly worse than the national average<sup>3</sup>, the program will contribute to improving coordination among frontline service providers for nutrition; it ensures that service providers are adequately trained on how to improve nutrition; and it will increase frequency of access of mothers to health extension services.

24. **Theory of change supported by the proposed AF.** The results chain which demonstrates the logic of the program in its four results areas is presented in detail in Annex 4. The overall justification centers around the Woredas’ mandate to deliver services to all citizens of Ethiopia and the financing that the federal government provides to the regions and Woredas to do so through the block grant system. One of the nine strategic pillars of GTP II—‘accelerate human development and technological capacity building and ensure its sustainability’—is directly related to the ESPES program. However, to sustain and provide quality decentralized basic services there is a need to improve the functioning of critical systems for service delivery at local levels. Hence, the AF aims to strengthen this system which plans, oversees, implements, and monitors the basic services. Accordingly, several DLIs of the AF have strong emphasis on strengthened fiduciary, CE, and ESMC.

25. **The new investment component will also support long-term system building and capacity.** Support for service delivery system building and capacity improvements has been provided through the PBS project subcomponent B to enhance CE and ESMs, deepen fiduciary aspects of service delivery, and improve data management system of sector ministries. A number of improvements have been achieved under PBS which have to be boosted in the medium term to help the sustainability of outcomes. PBS-3 ran parallel to the first phase of the ESPES program and thus there was no need for an investment component in the original ESPES program. The emphasis of the support through the investment component under the AF will be at the Woreda level but will also include some support for system strengthening and coordination at the federal and regional levels. The component is designed to complement the DLIs and PAP and contribute to the overall four results areas of the program. Care will be taken not to duplicate financing of the same or of closely linked activities that are supported under the PforR.

26. **The investment component would also include support to the CSA and the Vital Events Registration Agency (VERA) to improve their capacity to provide reliable data which is vital to track development in various spheres.** The objective of the support for development data is to strengthen the capacity of the two agencies to produce and disseminate timely and reliable statistics to monitor GTP II, to provide updated statistics needed for monitoring service delivery indicators, and to inform the Woreda block grant allocation formula. The development data component is an evolution of the Managing for Results subcomponent under PBS which had the objective of improving the quality and availability of development data. The importance of having good quality development data to better monitor progress is an important element of the IDA 18 agenda and the Africa Regional Strategy.

27. **The expenditure framework for the results-based part of the AF will continue to be the Woreda block grants.** The original PforR-financed Woreda block grants<sup>4</sup> for the period FY16–18 was

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<sup>3</sup> 51 percent of children 0-59 months old are stunted in PSNP Woredas compared to the national average of 38 percent.

<sup>4</sup> Includes only the share of block grants that go to Woredas and excludes the share that is retained at regions.

estimated (in 2015) at a US\$6,818 million with the IDA share being 8.8 percent and Government share being 86.5 percent (Table 2). Over the current ESPES program period (FY16–18), close to 100 percent of the forecasted Woreda block grants were actually budgeted and allocated. The proposed AF will cover FY19–21, during which Woreda block grant expenditures is estimated to total US\$14,583 million and the IDA share will be 4.8 percent with the Government’s share rising to 93.6 percent.<sup>5</sup> Some support from other development partners, including resources from AfDB, Austria, the European Union, and the Italian Development Cooperation, make up the difference. If there is a financing gap for the block grants, the Government will fill the gap as this is a constitutional obligation and the Government has already filled the gap during the life of the ESPES program. The Government has a significant amount of fiscal flexibility given that 50 percent of the budget is for capital expenditures. It can slow down capital projects to meet the gap in constitutionally mandated expenditures such as block grants. In addition, annual revenue growth is about 10 percent, creating additional fiscal space.

**Table 2. Updated Financing Table - Woreda-level Block Grant**

<b>Financing Source</b>	<b>Original Loan FY16–18</b>	<b>AF Loan FY19–21</b>	<b>Total</b>
Borrower/recipient (US\$, millions)	5,898.0	13,643.3	19,541.3
IBRD/IDA (US\$, millions)	600.0	700.0	1,300.0
Other donors (Austria, EU, AfDB) (US\$, millions)	320.0	240.0	560.0
- Borrower share (%)	86.5	93.6	91.3
- IDA share (%)	8.8	4.8	6.1
Total (US\$, millions)	6,818.0	14,583.3	21,401.3

*Note:* Of the US\$700 million added by IDA as AF, US\$600 million supports the expenditure program (Woreda block grants). This does not include the share of block grants that is retained by regions.

28. **Progress on the DLIs in the original ESPES program is shown in Table 3.** All DLIs which were due before or by May 2017 have been achieved except three (DLIs 9.3, 10(b)2, and 11.3). One more DLI (DLI 8.3) has been completed and the verification procedures are currently being finalized. Some of the DLIs have even been overachieved including the per capita increase in block grant budget which has surpassed the Disbursement Linked Result (DLR) target annual increase rate set at 9 percent. The real increase in Ethiopian Calendar Year (ECY) 2008 (similar to FY16) was 17 percent. Moreover, the achievement on DLI 3 (Number of health extension workers deployed qualified to Level 4 standard) has reached 10,724 against the target of 5,798. For DLI 7 (Enhanced transparency and accountability through CE), 37 percent of Woredas have conducted pre-budget discussions with an average of 46 percent female participation against a target of 15 percent of Woredas and 25 percent female participation. Some other indicators have already been achieved before their due date. This includes DLI 2 (Proportion of female agricultural DAs qualified to diploma level) which has reached 20 percent against the 2017 target of 17 percent.

29. The four delayed DLI targets are DLI 8.3 (An evaluation of the Woreda PFM benchmarking rating system is completed), DLI 9.3 (Each of Oromia, Amhara, Southern Nations Nationalities and People [SNNP] and Tigray regions has reported on their respective procurement performance in the agriculture,

<sup>5</sup> The estimation of the Government’s program of expenditure FY16–18 is based on actuals for FY16, budget for FY17, and the Government’s medium-term Macroeconomic and Fiscal Framework (MEFF) which provides rolling estimates of medium term (five years) for the Government expenditure forecasts up to FY21 (ECY2013). World Bank staff have estimated the amount for FY21. 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 in the proportion of Woreda block grants from federal block grants.

health and education sectors at the regional level based on the procurement performance indicators set forth in their respective guidelines), DLI 10(b)2 (25 percent of Woredas have conducted training for their standing finance and budget committees of their Woreda councils on the process of budgeting, expenditure oversight, and audit follow-up), and DLI 11.3 (A DHS has been carried out and published). It has been agreed with the Government that the three first ones will be completed and reported on by end August 2017 while the publication of the DHS survey may be further delayed. The World Bank has been monitoring the progress of the implementation and it is progressing well. The delays stem from an underestimation in the real time it would take to achieve these targets.

30. **Proposed changes to DLIs.** Table 3 includes the proposed changes in the DLIs and related targets. The specific changes to the DLIs include:

- (a) **DLI 1.** The annual percentage increase in the block grant budget targeted in the ESPES program was 9 percent. The AF scales up the annual increase progressively to 10, 11 and 12 percent from the last year.
- (b) **DLI 2–5.** The targets on qualified HEWs and female agriculture DAs are scaled up and a target on qualified teachers is added. In addition, targets on HEWs and teachers focus on the four regions where there is a strong need to improve staff qualifications. Enrollment rates and Penta 3 vaccination coverage are continued to be measures but the geographic focus is scaled up from the bottom 10 percent of Woredas to the bottom 20 percent of Woredas on that indicator. The old DLI on number of new children enrolled is discontinued. In addition, because data are not available during the program period to monitor wealth equity in sector outcomes DLI 5b was also discontinued. While the ESPES program sought to improve intermediary outcomes, the AF adds real sectoral outcome indicators such as girls' completion rates in grade 8 and improvement in access to nutrition services. Moreover, annual percentage targets are carefully set to deliver additional and better results while being consistent with sectoral development plans.<sup>6</sup>
- (c) **DLI 6.** The current ESPES program has been ensuring that safeguard manuals have been prepared and training has been undertaken for Woreda staff and environmental and social oversight bodies in Woredas. Following the training, the performance of staff will be assessed and there will be annual performance reviews of agreed environmental and social actions. The new ESPES program will now ensure that Woredas undertake environmental and social impact assessments (ESIAs) of their Woreda-financed projects using the operational manual (OM).<sup>7</sup>
- (d) **DLI 7.** The CE DLI continues to scale-up tangible Financial Transparency and Accountability (FTA) and Grievance Redress Mechanism (GRM) activities to more Woredas. While scale up of SA activities in more Woredas is supported through the investment component, the DLI ensures that SA becomes more institutionalized and sustained in the Government's own activities through the development of a national CE framework. The DLI also strengthens the SA feedback loop and ensures that actions agreed in the Woreda Joint Action Plans (JAPs) (prepared after the SA exercise are completed) are implemented.
- (e) **DLI 8–10.** The current ESPES program has focused on making available FM, ethics, and procurement manuals, undertaking a public financial management (PFM) Woreda benchmarking exercise, collecting Woreda-level data on procurement performance, assigning

<sup>6</sup> Because new poverty data will not be available for another five years (till around 2021), the AF can no longer monitor indicators related to wealth equity of services. DLI 5b is therefore discontinued in the AF period.

<sup>7</sup> Furthermore, with the support of PBS-3 a social and environmental screening tool was developed to manage the interface between World Bank-supported projects and the CDPs. The screening tool is currently being rolled out.

Woreda-levels ethics officers, and strengthening PFM and procurement audits and performance in Woredas. The AF will scale up these DLIs and focus them on real outcomes such as implementing a national PFM reform strategy, improving Woreda-level indicators on cash and bank management, scaling up Woredas' procurement reporting on basic service sectors, and implement ethics audit findings and strengthening complaint handling. Therefore, DLI10a is discontinued and replaced by DLI10c.

- (f) **DLI 11.** By supporting the 2017 Population and Housing Census (PHC), the DLI related to data quality and reporting of sectoral statistics will be scaled up. Current regional population numbers are based on projections from the 2007 PHC which are likely to be outdated, especially in light of rapid economic and population growth, increasing internal migration, and the occurrence of natural disasters (droughts). The new PHC will provide updated population numbers that will result in a more equitable and evidence-based allocation of public resources.
- (g) **DLI 12.** This new DLI has been added to improve the quality of nutrition services in PSNP Woredas, which normally are the most affected by drought and malnutrition and where stunting rates are much higher than the national average, and to improve the access of vulnerable mothers to such services.

**Table 3. Progress of Current DLIs and Proposed Revisions**

DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
<b>DLI 1:</b> Per capita increase in Federal Government block grant transfers to Regions, excluding Addis Ababa	ETB 641	ETB 699	ETB 761	<i>ETB 1,364</i>	<i>ETB 1,514</i>	<i>ETB 1,696</i>	Scaled-up target for outer years. This is critical to assure sustainability of long-term financing for block grant system.
	US\$30 million	US\$30 million	US\$30 million	<i>US\$30 million</i>	<i>US\$30 million</i>	<i>US\$30 million</i>	
	Achieved	Achieved (actual: ETB 962)	Expected November, 2017	<i>November 2018</i> <i>AF Baseline: Budgeted amount for EFY2010</i> <i>Target: annual increase of 10%, 11%, and 12% from the previous year</i>	<i>November 2019</i>	<i>November 2020</i>	
<b>DLI 2:</b> Increased proportion of qualified female agricultural development agents (diploma level)	16%	17%	18%	.	<i>24.5%</i>	<i>26%</i>	Scaled-up target for outer years. To address the problem of underservice of female farmers. Since not all regions in Ethiopia are amenable to agricultural production, the indicator keeps a nationwide focus.
	US\$10 million	US\$10 million	US\$10 million	.	<i>US\$20 million</i>	<i>US\$20 million</i>	
	Achieved	Achieved (actual: 20%)	Expected November, 2017	.	<i>May 2019</i> <i>AF Baseline: 20% (ECY 2008);</i> <i>Target: increase by 1.5 percentage points every year</i>	<i>May 2020</i>	
<b>DLI 3a:</b> Increased number of health	3,348	5,798	8,248	<i>13,499</i>	<i>15,225</i>	<i>18,351</i>	To put a stronger focus on equity the AF
	US\$10 million	US\$10 million	US\$10 million	<i>US\$10 million</i>	<i>US\$10 million</i>	<i>US\$10 million</i>	

DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
extension workers deployed qualified to Level 4 standard in 4 bottom regions (Afar, Amhara, Somali, Oromia)	Achieved	Achieved (actual: 10,724)	Expected November, 2017	<i>November 2018</i> <i>AF Baseline: 11,118 (EFY2008)</i>	<i>November 2019</i>	<i>November 2020</i>	is focusing this DLI only in the four regions with on average the skilled birth attendant rate (Afar, Oromia, Somali and Amhara). Upgrading the qualification level of workers is important to better address common health issues such as post-partum bleeding.
<b>DLI 4:</b> Increases in total number of students enrolled (net) in grades 5–8, (all regions excluding Addis Ababa)	50,000	50,000	50,000	<i>Discontinued</i>			Dropped to allow a new DLI that focuses on completion rates.
	US\$20 million	US\$20 million	US\$20 million				
	Achieved	Achieved (actual: 494,661)	Expected May, 2018				
<i>DLI 4a:</i> <i>Increased proportion of qualified teachers grade 1–4 (diploma level) in 4 regions (Afar, Somali, SNNP, Oromia)</i>	—			.	<i>57%</i>	<i>60%</i>	New indicator added to monitor quality of human resources for education.
				.	<i>US\$15 million</i>	<i>US\$15 million</i>	
				.	<i>May 2019</i>	<i>May 2020</i>	

DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
<b>DLI 5a:</b> Improved geographic equity in education and health service delivery outcomes: Net Enrollment Rate and grade 5–8, Girls Completion Rate grade 8, Penta 3 vaccine coverage indicators for the bottom performing 20% of Woredas	NER (grades 5–8) bottom 10%: targeted awareness campaign undertaken  Penta 3 bottom 10%: 50%	NER (grades 5–8) bottom 10%: 24%  Penta 3 bottom 10%: 51.7%	—	<i>Penta 3 coverage bottom 20%: 57.4%</i>	<i>NER (grades 5–8) bottom 20%: 24.3%; Girls completion (grade 8) bottom 20%: 16.5%;)</i>	<i>NER (grades 5–8) bottom 20%: 28.3%; Girls completion (grade 8) bottom 20%: 20.5%; Penta 3 coverage bottom 20%: 62.4%</i>	Scaled-up and outcome-focused targets for outer years. Outer years focuses on bottom 20% of Woredas.
	US\$35 million	US\$25 million	—	<i>US\$5 million</i>	<i>US\$20 million</i>	<i>US\$30 million</i>	
	Awareness target achieved November, 2015 and Penta 3 May 2016	NER target achieved (actual: 30%)  Penta 3 target achieved (actual: 78%)	.	<i>May 2018 AF Baseline Penta 3 coverage: 56.4% (EFY2010 first 10 months);</i>	<i>May 2019 AF Baseline NER (grades 5–8): 17.3% (ECY2008); AF Baseline Girls completion (grade 8): 12.5% (ECY2008)</i>	<i>May 2020</i>	
<b>DLI 5b:</b> Improved wealth equity in education and health service delivery outcomes	—	—	NER (grades 5–8) bottom wealth quintile: 26% Penta 3 coverage bottom wealth quintile: 29%	<i>Discontinued</i>			Household-level data needed to monitor wealth equity indicators will not be available during the AF period.
	—	—	US\$30 million				
	—	—	Expected November, 2017				
<b>DLI 6:</b> Improved environmental and social management capacity at Woreda level	An ESMS OM has been developed by MoFEC and cleared by MEF	200 Woreda-based staff in two developing states and two (2) regional developed states excluding the city states have been trained on	ESMS OM has been customized in at least four of the following regions states (Gambella, Somali, B. Gumuz, Afar, Southern Nations		<i>100 Woredas have environmental and social impact assessment (ESIA) system in place</i>	<i>250 Woredas have environmental and social impact assessment (ESIA) system in place</i>	Scaled-up and outcome-focused targets for outer years. Rationale to improve effective management of social and



DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
		the ESMS OM	Nationalities and People [SNNP])				environmental risks at Woreda level.
	US\$15 million	US\$20 million	US\$15 million	.	<i>US\$25 million</i>	<i>US\$25 million</i>	
	Achieved with a three-month delay	Partially achieved June 2017	Expected May 2018	.	<i>November 2019</i>	<i>November 2020</i>	
<b>DLI 7:</b> Enhanced transparency and accountability through citizen engagement	MoFEC has issued a directive on the conducting of pre-budget discussions by Woredas A road map for consolidation and scaling up of SA has been validated and adopted by the Steering Committee	15% of Woredas have conducted pre-budget discussions, with at least 25% of women participating in such discussions Roll out plan for SA is operational in 223 Woredas (existing and new kebeles)	Six regions have assigned staff/officers in grievance redress at at least 90% of Woredas Roll out plan for SA is operational in 300 Woredas including 77 new Woredas	.	<i>Nine regions have assigned GRM officers in at least 80% of their Woredas</i>  <i>65% of Woredas have conducted pre-budget discussions, with at least 30% women participating in such discussion</i>	<i>a) 50% of actions identified in JAPs have been implemented in 60% of SA Woredas that had JAPs by January 1, 2019</i>  <i>b) Government framework for CE developed</i>	Outer years focus on scaling-up FTA and GRM activities in Woredas and institutionalizing CE in Government operations and local-level implementation
	US\$20 million	US\$20 million	US\$20 million	<i>US\$25 million</i>	<i>US\$25 million</i>	<i>US\$25 million</i>	
	Directive achieved November 2015 and road map in May 2016	Pre-budget discussion achieved. (actual: 37% of Woredas with 46% female participation) SA expected June 2017	GRM target expected November 2017 and SA May 2018	.	<i>May 2019 and November 2019</i>	<i>May 2020</i>	

DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
<b>DLI 8:</b> Establishment of a Government system for benchmarking Woreda public financial management (“PFM”) performance (the “PFM Benchmarking Rating”)	OM for the PFM Woreda Benchmarking Rating developed by MoFEC is agreed with World Bank	Based on the OM, the Woreda PFM benchmarking rating has been rolled out to regional states	MoFEC targets the lowest performing Woredas for FM reform, based on a completed evaluation of the PFM Woreda benchmarking rating	<i>Develop federal PFM reform strategy</i>	<i>a) All 9 regions and 2 city-administrations adopt the PFM strategy</i>  <i>b) Improve results on the selected PFM indicators:</i> <i>i) Cash management - 40% Woredas submit to BoFED on a quarterly basis (as part of the financial report) the copies of their cash count statements</i> <i>ii) Bank reconciliation - 55% Woredas submit to BoFED on a quarterly basis (as part of the financial report) the copies of their bank reconciliation statements, all in EFY2011</i>	<i>a) Repeat PFM benchmarking</i>  <i>b) Improve results on the selected PFM indicators:</i> <i>i) Cash management - 50% Woredas submit to BoFED on a quarterly basis (as part of the financial report) the copies of their cash count statements</i> <i>ii) Bank reconciliation - 65% Woredas submit to BoFED on a quarterly basis (as part of the financial report) the copies of their bank reconciliation statements, all in EFY2012</i>	Outer years focus on scaling up benchmarking and improving PFM performance in Woredas and undertaking PFM reforms
	US\$10.5 million	US\$21 million	US\$10.5 million	<i>US\$5 million</i>	<i>US\$15 million</i>	<i>US\$20 million</i>	
	Achieved	Achieved June 2017 with a 6 months delay	Remedial action plan expected November 2017	<i>May 2018 and November 2018</i>	<i>May 2019</i>	<i>May 2020</i>	
<b>DLI 9:</b> Oversight functions of Regional procurement regulatory bodies has been improved	Procurement performance monitoring manual, developed by MoFEC, is customized by the procurement	Indicator-related data collection has commenced based on new formats in each of Oromia, Amhara, SNNP and Tigray	Procurement audits have been carried out on at least 25% of Woredas at each of Oromia, Amhara, SNNP, and Tigray	<i>Procurement performance is reported by the four regions (Amhara, Oromia, SNNP, Tigray regions) based on key performance</i>	<i>Procurement performance is reported by the four regions (Amhara, Oromia, SNNP, Tigray regions) based on KPIs on three basic sectors (agriculture, education) in the nine</i>	<i>a) Procurement data entry is streamlined and continue to be collected based on KPIs on the three basic sectors (agriculture, health, education) in the nine</i>	Outer years focus on applying the KPIs to report on procurement performance in regions

DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
	regulatory bodies for each of Oromia, Amhara, SNNP and Tigray regions	regions Each of Oromia, Amhara, SNNP and Tigray regions has reported on their respective performance in the agriculture, health and education sectors at bureau level, based on the procurement performance indicators	regions Each of Oromia, Amhara, SNNP and Tigray regions has reported on their respective performance in the agriculture, health and education sectors at bureau and at 10% of Woredas based on the procurement performance indicators	<i>indicators (KPIs) on three basic sectors (agriculture, health, education) pertaining to analyzed data captured in EFY2009</i>	<i>health, and education) pertaining to analyzed data captured in EFY2010</i>	<i>regions b) Procurement performance is reported by the nine regions based on the KPIs on three basic sectors (agriculture, health, education) pertaining to analyzed data captured in EFY2011</i>	
	US\$4 million	US\$8 million	US\$8 million	<i>US\$10 million</i>	<i>US\$10 million</i>	<i>US\$20 million</i>	
	Achieved	Data collection achieved December 2016. Sector performance delayed but expected July 2017	Expected November 2017	<i>May 2018</i>	<i>May 2019</i>	<i>May 2020 and November 2020</i>	
<b>DLI 10a:</b> Increased human resource capacity of Woredas to effectively respond to fraud and corruption complaints	Ethics officers have been assigned in at least 40% of Woreda Offices of Finance and Economic Development (WoFEDs)	Ethics officers have been assigned in 75% of WoFEDs	F&C complaints data is disaggregated by sector and type of case in 90% of Woredas	<i>Discontinued</i>			Dropped because the human capacity will be reached
	US\$10 million	US\$10 million	US\$10 million				
	Achieved	Achieved (actual:	Expected				

DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
		76%)	November 2017				
<b>DLI 10b:</b> Strengthened capacity of Woreda Council finance and budget standing committee members to provide effective oversight, transparency and accountability for budgets	MoFEC prepares a training manual for Woreda Councils on the process of budgeting, expenditure overseeing, and audit follow up	25% of Woreda Councils (with at least 25% of available women included) have arranged training for their Finance and Budget Standing Committee members on the process of budgeting, expenditure oversight, and audit follow up	75% of Woreda Councils (with at least 50% of available women included) have arranged training for their Finance and Budget Standing Committee members on the process of budgeting, expenditure oversight, and audit follow up	.	<i>Woreda Budget and Finance Standing Committee review annual audit findings and action has been taken in 15% of the Woredas where audit report is submitted on Woreda Treasury accounts by ORAGs</i>	<i>Woreda Budget and Finance Standing Committee review annual audit findings and action has been taken in 25% of the Woredas where audit report is submitted on Woreda Treasury accounts by ORAGs</i>	Outer years focus on applying the training and implementing audit findings
	US\$6 million	US\$6 million	US\$6 million	.	<i>US\$5 million</i>	<i>US\$10 million</i>	
	Achieved	Delayed but expected July 2017	Expected May 2018	.	<i>May 2019</i> <i>AF Baseline: About 10% of Woredas received and reviewed audit report findings and followed up recommendation through their Budget and Finance Standing Committee</i>	<i>May 2020</i>	
<b>DLI 10c:</b> Strengthened capacity of Woredas to				<i>100 Woredas use electronic record keeping (Excel or more advanced system) and use this system to report to BoFED on F&amp;C cases/tip</i>	.	<i>25% of Woredas where at least one F&amp;C case has been recorded with the ethics officer referred the cases to REACCs for action</i>	Added to monitor the application of F&C complaints handling

DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
effectively respond to F&C complaints including disaggregation of data and decision on cases				<i>offs according to the agreed format in EFY2010</i>			
				<i>US\$10 million</i>	.	<i>US\$15 million</i>	
				<i>November 2018</i>			
				<i>AF Baseline: Record keeping is not IT-based and decision on cases are not regularly followed up</i>	.	<i>November 2020</i>	
<b>DLI 11:</b> Improved development information and data for service delivery	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 published, disaggregating results more by gender	Household Consumption and Expenditure Survey has been published, with gender analysis included. Assessment has been implemented in three of four basic service sectors (cumulative) by November 1, 2018. Agricultural census methodology has been revised by CSA	<i>a) Fieldwork for the 2017 PHC completed and completion report submitted to Census Commission</i>  <i>b) Preliminary population numbers from the 2017 PHC produced and report available online</i>	<i>Microdata of 2017 PHC publically accessible online</i>	.	Outer years focus on supporting the 2017 PHC including the release of results and census microdata
	US\$12 million	US\$24 million	US\$24 million	<i>US\$25 million</i>	<i>US\$15 million</i>	.	
	Achieved with delay	Data quality target expected November, 2016 but delayed until June 2017. DHS	Expected November 2017	<i>May 2018 and November 2018</i>	<i>November 2019</i>	.	

DLIs (Targets and Disbursements)	Original			Revised			Revised
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	
		target delayed expected September 2017					
<i>DLI 12: Improve nutrition services</i>	—			<i>Woreda level coordination platform is in place, consistent with agreed ToR, in PSNP Woredas</i>		<i>a) In 50% of PSNP Woredas in Highland areas at least 50% of deployed frontline workers have received nutrition training</i>  <i>b) 58% of mothers with children aged 0-23 months (PSNP households only) living in PSNP Woredas in Highland areas have had contact with a HEW during the past 3 months</i>	Added to improve results in malnutrition consistent with the Early Years agenda
				<i>US\$15 million</i>		<i>US\$35 million</i>	
				<i>November 2018</i>		<i>November 2020</i>	
						<i>AF Baseline: 33% in January 2016</i>	
<b>Total</b>				<i>US\$120 million</i>	<i>US\$225 million</i>	<i>US\$255 million</i>	

30. **Additional changes proposed.** For the PforR component, there will be no changes to the program expenditure framework except increment due to an increase in number of years. In general, the expenditure framework for the AF will continue to be expenditures associated with the Government of Ethiopia's IGFT which provided block grants to region and onwards to Woredas for delivering basic services such as health care, education, agriculture services, rural roads, and water and sanitation. There will be no changes to the fiduciary controls, environmental and/or social safeguards, or disbursement arrangements of the PforR component. Annual audits will continue to be undertaken, IFIs are due quarterly, and the Government will use the same Designated Accounts used for the ESPES program also for the AF. Currently there are no overdue audits or interim financial reports (IFRs). There are no high value procurement contracts above the Operational Procurement Review Committee (OPRC) thresholds.

31. **Closing date.** To accommodate the AF and the new and scaled-up DLIs, the closing date of the operation will be extended to May 31, 2023. The PforR component will be disbursed over three years (until about December 2020) and the investment component will be implemented over five years (until December 2022).

32. **Implementation and oversight of PforR.** Overall implementation arrangements for the AF remain the same as for the original ESPES program. MoFEC is the implementing agency for the ESPES program, given its overall responsibility for supporting financial flows from the federal to more decentralized levels and for ensuring that PFM systems work smoothly. Within MoFEC, the Channel One Programs Coordinating Directorate (COPCD) is responsible for coordinating daily ESPES program activities across the basic service ministries, Government bodies, and subnational Government entities. At the regional government level, Bureaus of Finance and Economic Development (BoFEDs) have similar responsibilities at the regional level as MoFEC has at the federal level. At local level, WoFEDs and Urban Administration Offices of Finance have similar responsibilities. The overall capacity of the decentralized IGFT and service delivery system remains robust.

33. In addition to MoFEC and the corresponding decentralized institutions which have the overall responsibility to implement the program and coordinate with all other entities, a number of other oversight bodies continue to be involved to implement the DLIs and PAP actions. This includes sectoral line ministries such as the ministries of education, health, agriculture and natural resources, and environment. Federal Ethics and Anticorruption Commission (FEACC) is the oversight body for DLI10. Regional Procurement Regulatory Bodies are the oversight bodies for DLI9. To deliver the results for the new statistics DLRs (in DLI11), CSA is the technical entity which will carry out the activities.

34. **Monitoring and evaluation (M&E) and DLI verification.** Overall M&E arrangements for the AF remains the same as for the original ESPES program. However, there will be some changes in order to strengthen the verification processes. Lessons learned from the existing ESPES program show that the verification protocol and its process have not been clear enough to verifiers. In the AF, a detailed verification process including methodologies, definitions, and approaches will be prepared jointly between the verification agencies, MoFEC, and the World Bank. In addition, the experience with the current ESPES program indicate that regular monitoring and supervision around the PAP is critical and can boost the achievement and monitoring of the DLIs. For this, regular review meetings will be held with the client every six months. The meetings will review the status of each activity under the PAP and recommend actions or adjustments as needed. In addition, a new process evaluation of the ESPES program will also be undertaken sometime around the midpoint of the duration of the AF.

35. Verification agencies have been selected for both their expertise and independence regarding data quality and collection. Verification agencies include the CSA, Office of the Federal Auditor General (OFAG), Federal Public Procurement and Property Administration Agency (FPPPA), FEACC, and Ethiopian Development Research Institute (EDRI). 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. For the new statistics targets (in DLI 11) the EDRI will be the verifier. The SDS 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 implementation.

36. **Investment component.** The proposed project allocates US\$100 million as a grant for an investment component which aims to complement the PforR by providing technical assistance (TA) and capacity building for service delivery system performance in the four results areas of the program. The investment component is made up of three subcomponents which are described in Annex 4 in detail. In sum, the component descriptions are as follows:

- **Subcomponent 1: System and Sector Strengthening (US\$26.5 million equivalent).** This component provides support to the service delivery systems at the federal, regional, and Woreda levels. Support to sectors is closely tied to the availability of quality data to monitor sectoral outputs and outcomes (including monitoring ESPES program DLIs). The component will finance key activities such as (a) strengthening sectoral management information system (MIS) for education, health, agriculture, and Water, Sanitation, and Hygiene (WaSH); (b) providing finance and TA to the Service Availability and Readiness Assessment (SARA) health survey; and (c) costs related to undertaking behavioral change campaigns for improving human development outcomes in the bottom 20 percent of Woredas on health and education indicators. The component will also finance activities that strengthen the procurement, FM, governance, and social and environmental systems at decentralized levels.
- **Subcomponent 2: Citizens Engagement (US\$30 million equivalent).** This component will finance three key areas of CE, namely (a) FTA (US\$5 million); (b) GRMs (US\$5 million); and (c) SA (US\$20 million). In FTA, the activities include support to budget literacy, media campaigns, support for audit and procurement information disclosure, related training assessing the effectiveness of FTA, strengthening FTA/GRM/SA linkages, capacity-building support to the Ethiopian Institute of Ombudsman (EIO), and support to grievance management by GRM offices. In SA, the project would support the new phase of the ESAP program and expand utilization of SA tools in Woredas and kebeles; strengthen capacity of the SA system in Ethiopia and support SA program management, M&E, and knowledge management of SA. Overall, the technical design of the on-the-ground implementation of SA financed through the ESPES program will closely coordinate with the ESAP3 (P129534) activities financed through a new MDTF program under development. Hence, financing for ESAP3 comes from two different funding flows—IDA financing comes through the ESPES program and other development partner support comes through a World Bank-executed MDTF. On the ground implementation of ESAP3 will be closely harmonized.
- **Subcomponent 3: Capacity building and M&E (US\$43.5 million equivalent).** The main objective of this subcomponent is to strengthen the capacity of the CSA to produce and disseminate timely and reliable statistics to monitor progress under the GTP II. Some support will also be provided to VERA to improve vital statistics and especially the interface with CSA. The capacity building support to CSA and VERA will focus on (a) data production and dissemination; (b) organizational and soft statistical infrastructure and capacity building; and (c) improving the quality of household and vital statistics. This component will also support M&E, management and operational costs including (a) incremental staffing costs; (b) operational costs including audits and program M&E; and (c) costs incurred by the DLI verification agencies.



37. **Summary of investment component institutional and implementation arrangements.** The implementation arrangements for the investment component are based on the system that has been used for PBS-3 program B for the last five years. The COPCD will manage funds and procurement. At the federal level, MoFEC is the implementing agency for the investment component. Given its overall responsibility for supporting financial flows from the federal to more decentralized levels and for ensuring that PFM systems work smoothly. Within MoFEC, the COPCD is responsible for coordinating daily activities across the basic service ministries, Government bodies and subnational Government entities and for ensuring compliance with legal agreements. MoFEC/COPCD is responsible for the overall program including FM and procurement. MoFEC will be responsible for preparation of the annual work plan and budget. Because PBS and the ESPES program have been implemented under the same arrangements for a number of years, both federal- and regional-level entities have now acquired significant capacity to manage the program smoothly. Other federal-level entities that implement the investment component include CSA, FPPAA, FEACC, OFAG, EIO, VERA, and sectoral ministries including the Ministry of Health (MoH), the MoANR, the Ministry of Education (MoE), the Ministry of Water, Irrigation and Electricity (MoWIE), and the Ministry of Environment, Forest, and Climate Change (MoEFCC).

38. Funds will flow from the World Bank using the Channel One mechanism to MoFEC and from MoFEC to federal-level implementing entities and BoFEDs. From BoFEDs, it will flow to regional-level entities. There is no expectation that the funds will be released to local levels at Woredas. The key institutions and their roles and responsibilities are laid out in Annex 6, a summary of which is described in the following paragraphs.

#### **IV. Appraisal Summary**

##### *PforR*

39. **Incremental technical assessment summary.** In Ethiopia's decentralized system, subnational governments heavily rely on block grant transfers from the federal government to deliver the services that fall under their mandate. On average, block grant transfers account for about 80 percent of total regional-level budgetary resources. Fifty-eight percent of Woreda spending goes to health, education, and agriculture. The main objective of the decentralized IGFT system is to continue the provision of social services that help to achieve the human development agenda of the country.

40. The Woreda block grant program is hence an effective mechanism in expanding service delivery. It is also supported by robust national accountability systems for CE, fiduciary management, environmental and social management and assessment, and quality data systems. 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.

41. The existing ESPES program DLIs support has strengthened outcomes in human development areas; improved vertical and horizontal gender equity in the access and quality of services; improved governance and fiduciary system at the Woredas for managing basic services and related expenditures; and expanded CE and improved environmental and social safeguards in the delivery of services. Despite the success, there is room for improvement especially in enhancing gender, socioeconomic, and geographic equity in access to quality services. Differences in service use and outcomes are also different by gender. Given these shortcomings and the realities of data availability, the ESPES program AF will have a specific focus on improving gender and geographic equity of services.

42. The technical assessment also established the critical importance of CE and other demand-side Woreda and kebele-level awareness activities to inform the citizens about the benefits that basic services

bring to them, their rights in terms of quality service standards, and the importance of using basic services to promote and protect their families' well-being and productivity. The ESPES program support to CE will therefore contribute to advancing the Government's goal in this regard through a variety of accountability and transparency instruments being implemented in growing number of Woredas and kebeles in the country.

43. The assessment also highlights that improving the quality of data on the five basic service sectors is of paramount importance to accurately measure progress on service delivery indicators. Therefore, the ESPES program AF will continue to strengthen a number of data and statistics related areas including sectoral MISs, vital statistics registration, and the 2017 National Population and Household census.

44. The overall capacity of the decentralized block grant system and service delivery system remains robust. As a result of the PBS series as well as the ESPES program, capacity has improved, especially at the regional and Woreda level, for managing the block grant system and to deliver basic services. However, experience to date shows that there is a need to strengthen the intersectoral collaboration between MoFEC and sectors, and within the sectoral ministries. MoFEC is currently deliberating how to develop an effective coordination mechanism for the program going forward. In the AF, emphasis will be placed on effective coordination mechanisms with sectors and regions.

45. In sum, the ESPES program takes forward the agenda of equitable access to quality basic services thereby promoting the World Bank's twin goals of ending extreme poverty and boosting shared prosperity. The AF will use a multisector approach by soliciting collaboration across different sectors and global practices. The program continues the strategic approach to enhancing gender and geographic equity in service delivery. The AF will prioritize local-level financing for education, health, and agriculture. The current PDO is still solid and valid for next program phase.

46. **Incremental integrated fiduciary systems assessment summary.** An Incremental Integrated Fiduciary Assessment (IFA)<sup>8</sup> for the proposed AF for the ESPES program was carried out on federal, regional, and local government entities. The is consistent with Operational Policy (OP)/ Bank Policy (BP) 9.00, Program-for-Results Financing. The summary of issues is laid out below, under the Financial Management, Procurement and Fraud & Corruption/Compliant handling mechanism headings.

47. *Program Financial Management.* The 2014 Public Expenditure and Financial Accountability (PEFA) assessment for the federal government and regional government will continue to be the main overall diagnostic work providing overall status of PFM. The main issues of the PEFA assessment were captured in the last IFA of the current ESPES program and will continue to be applicable for this AF. Several of these issues are being addressed through the Expenditure Management and Control Program—the Government of Ethiopia's flagship PFM reform program. The findings of the PEFA assessments feed into the EMCP Annual Work Plan. The assessment used the results of Continuous Audit Reports, Woredas PFM benchmark rating, as well as the project-specific PFM assessment conducted in sample Woredas and lessons learned from performance of the existing operation. The key finding of the Woreda-level fiduciary assessment specific to the ESPES program are the following: strong FM systems are in place; the Integrated Budget and Expenditure System (IBEX) is rolled out to almost all Woredas; the annual budget is proclaimed and notified as per budget procedures by regions; budget and actual expenditure are disclosed to the public;

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<sup>8</sup> 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 World 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.

accounting, IBEX, budget and internal audit manuals are available at all visited Woredas; audit committees have been established at the Woredas visited; and funds are released to Woredas in a timely manner. Segregation of duties on payment is generally satisfactory; the payroll system is strong, timeliness of reports of the visited Woredas has improved, almost all regions closed their books of account and published their consolidated accounts for ECY 2008. The consolidated accounts were under audit. The OFAG's annual audit coverage on average has reached 62 percent which is a significant improvement from the situation five years ago (40 percent).

48. While the Woreda-level fiduciary assessment concluded that strong FM systems are in place, there exist some weakness. These include: the use of a manual ledger to control budget (instead of budget control module of the IBEX); the absence of disclosure of audit reports; no payroll software is available to process the monthly salary and to handle human resources personnel data base; there is weak performance of the internal audit, weak property management, weak cash control and delays in monthly bank reconciliation, delay in presenting consolidated audit reports to regions' councils, inadequate performance audit coverage by OFAGs, weak capacity of the budget and finance standing committee for oversight role, no incentive for workload on staff at finance pool, and lack of some facilities, especially computer hardware, at the visited Woredas. Most of these findings were reflected in the PEFA assessment, in the OFAG continuous audit, and in the Woredas PFM benchmarking rating. It is the conclusion of the assessment that the FM risk is rated Substantial. To address the challenges and risks noted to support the PFM reform agenda targeting the decentralized structures, mitigations measures are proposed which consist of a combination of DLIs and PAP.

49. Program FM arrangements of the PforR component will continue to be applicable for this AF. These are based on Government accounting and budgeting procedures. Funds will flow from IDA to treasury through a Designated Account that the Government preferred to open for the exiting operation. From the treasury to regions, funds will flow as subsidies/block grants following IGFT protocols. The quarterly IFRs designed for the PBS and the inclusion of the ESPES program-related data on a semiannual basis will continue to be applicable for the AF. The report will originate from Woredas, and are consolidated at the regional and federal level for onward submission to the World Bank. The continuous audit arrangements designed under the PBS will continue along with annual financial audit. Further, the annual audit of the program, with audit reports being submitted within six months of end of the fiscal year, will also continue to be applicable for this operation. The World Bank will provide implementation supports and will conduct the semiannual FM supervision missions linked with the semiannual Joint Review and Implementation Support (JRIS) missions. The investment project financing (IPF) component will be subject to a separate FM assessment.

50. *Program procurement.* There is an established legal and institutional framework for management of procurement activities. In most Woredas, the procurement function is organized under the Property and Procurement Process Owner reporting to the Head of the Woreda Finance Office. Each Woreda has a centralized procurement system (pool system) serving all sectors at the Woreda. Basic sector bureaus at regional level have their own procurement units to deal with procurement activities. Given the high level of procurement activity at sector office, there is a need to build commensurate procurement capacity at sector offices by improving the procurement organization structure and staffing. Regional Procurement Regulatory Bodies are mandated to provide procurement oversight and monitoring both at Woredas and regional sector offices. To appropriately discharge their responsibilities, the organizational structure and capacity of the regulatory units should match with the ever-increasing volume of procurement in the regions. The fact that the regional regulatory bodies have started procurement performance measurement system through KPIs is encouraging progress in terms of creating a catalytic effect toward strengthening the procurement system

51. Given the low degree of oversight by Regional Procurement Regulatory Bodies because of capacity limitations and the observed gaps in procurement operation and performance at decentralized level, the procurement risk is rated High. To strengthen the reliability of the system, a number of measures have been identified for implementation as part of the program. The measures are focused at 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. The assessment identified the following main issues in the procurement system in relation to program performance: (a) most regional regulatory bodies do not have adequate and dedicated budget that they can plan and use to be able to discharge their responsibilities properly; the organization of most regulatory bodies lacks independence; (b) staffing at some regional regulatory bodies is very low leading to the bodies not functioning properly; (c) staff with no procurement experience and training are assigned at procurement units of basic sector regional bureaus that expend significant share of budget through procurement; (d) the coverage of procurement audit by regional regulatory bodies is low with decreasing trend—there are issues of audit coverage and audit quality and reporting that have to be addressed; (e) there are Woredas that have still not separated the procurement function from the accounting and disbursement function, and are not operating according to the procedure prescribed by the pool manual; (f) works constitute the major share of procurement expenditure at Woredas, but the pool system seems to focus more on 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 gaps. Despite works constituting the bulk of procurement expenditure, commensurate training in this area and in the area of contract management is lacking; and (g) there are gaps in procurement planning, bidding document preparation, evaluation, contract award, and contract management at the Woredas level, that need to be addressed.

52. To address these identified issues and to further strengthen the reliability of the procurement system, a number of measures have been identified for implementation as part of the program through a DLI and incorporated in the PAP. The measures are focused at strengthening the control and integrity of the procurement system so as to narrow the gap between the theory and practice.

53. The conclusion of this assessment is that the procurement system at the Woreda level is adequate given the volume and value of procurement envisaged under the program and that the system can provide reasonable assurance that the program will achieve intended results with continued capacity-building and system-strengthening actions. It is not expected that there will be any high-value contracts falling within the OPRC threshold during the life of the program.

54. *F&C complaint handling mechanism.* To address F&C and the complaint-handling risk, the ESPES program will be aligned to the Anticorruption Guidelines (ACG) as well as the National Complaint Handling Proclamation. The Memorandum of Understanding (MoU) signed between the World Bank's Integrity Vice Presidency with the FEACC on October 3, 2011 provides the framework for cooperation and sharing of information on F&C allegations, investigations, and actions taken on the program, including on procurement. The MoU will provide the World Bank and the Integrity Vice Presidency with the basis for expanding the existing working relationship to cover future cooperation in investigation under the program when needed, and for helping to ensure that the Government of Ethiopia and the FEACC can implement their commitments under the ACG. The FEACC will accomplish the tasks in cooperation with the Federal Office of the Attorney General, Regional Ethics and Anticorruption Commissions (REACCs), and others concerned. The National Complaint Handling Proclamations and the institutional level operational guidelines clearly define the procedures to follow under corruption offences as well as for administrative complaints. The ACG will also be applied to the program.

55. Overall, the fiduciary assessment for this AF concludes that the 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 the risks of F&C, including effective complaint-handling mechanisms, have been agreed and established. The overall risk for this program is rated Substantial. The details of the assessment including main risk areas and the mitigation measures are described in Annex 7.

56. **Incremental Environmental and Social Systems Assessment (ESSA) summary.** The incremental ESSA was disclosed on the Bank's website on May 29, 2017. Ethiopia continues to have one of the most robust policy and legal frameworks for environmental and social management and assessment in Africa. The legislative commitment of Ethiopia to environmental and social management, and sustainable development objectives is highlighted by the inclusion of provisions in its Constitution; the Environmental Policy; the Conservation Strategy; and various proclamations, regulations, and guidelines.

57. However, inadequate human resources and a frequent turnover of technical staff remain a challenge. Moreover, lack of coordination and integration between basic service sectors and oversight bodies, including the MoEFCC and the Ministry of Labour and Social Affairs (MoLSA) exacerbate the challenges for effective implementation of environmental and social management and assessment. These challenges are more prominent in the regions, particularly in the emerging regions. The last two JRISs further articulated these challenges as: (a) lack of capacity, particularly at Woreda level; (b) inadequate qualified staff; (c) lack of budget; (d) inadequate public participation; and (e) lack of coordination at all levels (linkages between the oversight bodies and basic sectors is generally weak at all levels).

58. Federal- and local-level consultations and regional reviews in the emerging regions recommended to (a) build local capacity in environmental and social management, including training; (b) strengthen awareness creation and advocacy activities; (c) strengthen environmental and social oversight institutions at all levels; (d) strengthen vertical and horizontal linkages between environmental and social oversight institutions and basic sectors; (e) provide regional and Woreda institutions with environmental policy, legal frameworks, and necessary technical guidelines; (f) avail financial, material, and technological resources; and (g) establish and strengthen information, communication, and data management system.

59. The program is not expected to generate any negative impacts on people and the environment. There will be no land acquisition or restriction of access. Neither the PforR actions nor the capacity-building activities in the investment component involve any capital investment or civil works. Rather, by building capacity on safeguards through the program, the World Bank is influencing the treatment of a much broader set of Government-owned projects. These projects will benefit greatly from enhanced local-level capacity in safeguards, especially in relation to social impacts and aspects, which are typically weaker than biophysical aspects, at Woreda level. The safeguards local capacity-building element is relevant to all sectors because the Woredas are responsible for implementing community consultation, land acquisition, and resettlement, including compensation enforcement and oversight of GRM and so on, for Government initiatives such as infrastructure and rural roads projects. The PforR actions will strengthen the basic service delivery system by (a) enhancing CE, environmental, and social risk management capacity; (b) deepening fiduciary aspects of basic service delivery; and (c) ensuring quality data access and results.

### *Investment Component*

60. Given that the investment component builds on the PBS project series and will be implemented by the same implementation agency (MoFEC) including its decentralized branches, capacity for managing the fiduciary aspects of a World Bank-financed investment project is in place. The 2014 PEFA assessment has been completed for the federal government as well as for a number of regions. Significant improvements were noted in most of the federal government ratings although the rating differs among regions. Generally, the budget credibility of the country remained well-supported with the continuing robust budget execution and internal control systems. Procurement systems are strengthened since the 2010 assessment although the

publication of procurement information has not progressed as much. Therefore, the fiduciary capacity and familiarity of the implementer of World Bank fiduciary procedures is adequate to implement the investment component the program.

61. **Project Financial Management.** In accordance with OP/BP 10.00 (Investment Project Financing), an FM assessment has been conducted in accordance with the Financial Management Practices Manual for World Bank-financed investment operations. In conducting the assessment, the World Bank team visited the main implementing entities from federal level to regions.

62. The project benefits from the strengths of the country's PFM system such as the budget process, classification system, and compliance with financial regulations. MoFEC also had significant ongoing experience in managing World Bank operations that are similar to the investment component. The program also benefits from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties, and it benefits from the effort being made to improve the internal audit function. However, the decentralized nature of the program, the weak internal audit function, the internal control issues raised in various reports especially property management, cash and bank management, and so on are the main weakness for this project.

63. The FM arrangements for the project (see Annex 6 for details) follow the Government's channel one fund flow mechanism, where funds from donors flow directly to MoFEC first, then to federal-level implementing entities and BoFED, and from BoFED to regional level entities. The project will use the Government's accounting and internal control procedures. The program will use report-based disbursement, with submission of quarterly IFRs 60 days from the end of the quarter, with two quarters' expenditure forecast to the World Bank and replenishment of project accounts accordingly. All disbursement methods are available to the project. The project will have an independent auditor's report every year, to be submitted to the World Bank within six months of the year-end. A new Designated Account will be opened for the IPF component.

64. The conclusion of the FM assessment was that the FM arrangements met IDA requirements according to OP/BP 10.00. On the basis of the assessment, the FM risk identified for this component is Substantial. A modified action plan has been developed to mitigate the risks identified (see details under Annex 10).

65. **Project Procurement.** Procurement under the investment component will be carried out in accordance with the World Bank Procurement Regulations for IPF borrowers, July 2016, as well as the provisions stipulated in the Financing Agreement. The investment component will finance the cost for automation which includes procurement of information technology (IT) and networking equipment to enhance MIS in the basic service sectors, automate GRM offices, establish network connection between EIO and its branch offices, network development in CSA's branch office, as well as IT (software and hardware) to enhance the implementation of procurement KPI. There will also be procurement of goods including vehicles for sectors and PFM activities, and procurement of physical infrastructure for CSA which includes procurement of agriculture census field equipment (specialized global positioning system [GPS]) and field vehicles. There will be various consultancy services related to activities planned under system strengthening interventions including CSA's plan to select consulting firms for support to undertake different surveys and improvements on agriculture census methodology, revision on Ethiopian Data Quality Assessment Framework (EDQAF), support for the preparation of training module and pilot training to rollout CSA's training institute. A Management Agency (MA) will be hired for implementation of SA activities. There are non-consultancy services related to mass media services (television and radio) to undertake awareness on Grievance Redress Mechanism (GRM), information campaigns and communication services on basic service sectors, dissemination of print materials, and procurement of training and venues for various capacity-building activities related to the different initiatives in the program.

66. Procurement will be centrally implemented at two implementing agencies. CSA will be responsible for procurement activities planned under its subcomponent, while COPCD under MoFEC (at the federal level) will be responsible for all other goods, consultancy, and non-consultancy services with the exception of small-value individual consultants and contract staff selection which will be processed under each beneficiary institution (sector- and regional-level agencies). Procurement under the investment component will be carried out according to the procurement arrangement described under Annex 5. Because the programs build on the PBS investment project series, staff at MoFEC are familiar with the World Bank's procurement processes.

67. Procurement risk assessment has been carried out at both COPCD and CSA. Main risks identified include: (a) inadequate staffing and sustainability of project implementation unit (PIU) at CSA; (b) inadequate record keeping system at CSA; (c) inability to sustain availability of experienced procurement staff at COPCD; (d) delays in preparation of terms of reference (ToR), poor quality of ToRs and specifications, and inadequately prepared bidding documents/RFPs; (e) the possibility of including unqualified firms in shortlists; (f) limitations in technical evaluations; (g) challenges in managing and monitoring numerous Individual Consultants (including contract staff) under the project; (h) delay in procurement implementation; and (i) limitations in contract management capacity. For the identified risks, the main recommendations are: (a) hire and maintain one senior procurement specialist and one contract administration officer at CSA and also ensure the PIU is extended to cover the project period and its structure is revised to enhance internal control and record keeping; (b) involve technical experts from respective beneficiary departments during the preparation and update of the procurement plan; (c) develop an accountability framework with defined business standards, coordinate beneficiary technical departments, and involve qualified technical experts with similar experience to prepare the technical specifications and functional requirements of bidding documents and ToRs; (d) sensitize evaluators so that they understand that shortlisting unqualified firms will affect the quality of the final outcome, and ensure that qualified firms are shortlisted; (e) beneficiary organizations will be held responsible for selection and management of Individual Consultants hired on contract basis using government procedure, and a ToR for each type of position, deployment schedule, and salary scale will be prepared and submitted for the World Bank's agreement; (f) revise incentive structure for procurement staff in accordance with market condition; (g) conduct a quarterly procurement review meeting involving all beneficiary agencies; and (h) establish a contract monitoring system, hire a qualified contract administration officer, and assign a technical focal person for consultancy contracts, deliverables-reviews and approval at both COPCD and CSA.

68. The Procurement Plan of the investment component will include the main activities indicated under Annex 5. The Borrower shall submit the Procurement Plan through Systematic Tracking of Exchanges in Procurement (STEP), and it will be disclosed by the World Bank to the public when the detailed plan is approved through STEP. The Procurement Plan, as agreed between the World Bank and the Borrower during negotiations, will specify procurement methods and their applicable thresholds, as well as activities that will be subjected to the World Bank's prior review, for all packages. The Procurement Plan will be updated on an annual basis or as needed throughout the project duration through STEP to reflect the actual project implementation needs and improvements in institutional capacity.

69. **Environmental and social management.** The physical setting is not relevant for safeguard analysis as the investment component does not involve any capital investment or civil works and will strengthen the system by: (a) strengthening capacity of sectors and service delivery systems; (b) enhancing CE, and environmental and social risk management capacity; and (d) ensuring quality data access and results. There will be no land acquisition or restriction of access in this investment component. World Bank safeguard policies are not triggered. Thus, the Environmental and social category for the ESPES program is determined to be C. No new safeguard documentation will therefore be produced.

70. There are two key public institutions that are directly responsible for implementing the environmental and social compliance for this AF—MoEFCC and MoFEC, which have decentralized to the regional and Woreda levels. While the agencies have significant experience in implementing the program at this point, lack of an effective institutional mechanism in the basic sectors for coordination and reporting on environmental and social safeguards remains to be a challenge. Therefore, the investment component will address some of the challenges by providing capacity building support for strengthening the coordination mechanism and reporting on environmental and social safeguards.

71. The ESPES program AF will be implemented throughout the country. The objective of the system strengthening and capacity-building component is to improve the Government's federal-, regional-, and Woreda-level administrative systems for implementing and monitoring the block grant program and for improving the efficiency and effectiveness of the country in delivering basic services to all Woredas. For instance, the safeguards local capacity-building element is relevant to all sectors because the Woredas are responsible for implementing community consultation, land acquisition, and resettlement, including compensation enforcement and oversight of GRM, and so on for Government initiatives such as infrastructure and rural roads projects. These projects will benefit greatly from enhanced local-level capacity in safeguards, especially in relation to social impacts and aspects, which are typically weaker than biophysical aspects, at Woreda level.

#### *Monitoring and Evaluation*

72. **Overall M&E arrangements for the AF remain the same as for the original ESPES program.** The semiannual JRIS held in November and May of each year serves as the forum for assessing implementation progress, progress toward the PDO, updating progress on the Results Framework, and addressing any implementation challenges. However, for the PforR part verification protocols and procedures need to be strengthened. The Government is in the process of preparing a more detailed verification template which will be agreed with the World Bank and with verifiers and used for each verification. In addition, the task team will closely monitor implementation of the PAP activities to ensure that they are undertaken on time and according to agreed ToR so that they can contribute effectively to the DLIs.

73. Other M&E activities that will be undertaken to monitor and assess the ESPES program AF include: (a) the ongoing ESAP2 (P129534) impact evaluation (endline survey in the field April 2017, final results expected before July 2017); (b) a process evaluation of the whole ESPES program (last process evaluation undertaken in 2015); (c) assessments of the GRM and FTA activities; and (d) subnational system assessments of fiduciary and safeguards systems.

#### **V. Risks**

74. **A number of country-level risks have been identified that arise from Ethiopia's current political and governance structure.** In recent months, the Government has been confronted with growing social and political unrest, as evidenced by the protests in Oromia and Amhara regions. These events have substantially increased the political/governance risks in the country. The situation is likely to remain highly unpredictable for the foreseeable future. While the World Bank believes that development efforts are vital to reinforcing national stability and remains committed to supporting development activities in all regions of the country, significant deterioration in the security situation could impact the effectiveness of World Bank-supported programs. Because of protests and elevated levels of insecurity in some parts of the country service delivery facilities have been damaged and in some places staff cannot get to their posts. This could affect the ability of providers to continue to deliver quality services in some places.



75. To mitigate the latent risks arising from a potential reemergence of the civil disturbances, this program includes strong communication measures and a CE protocol comprising consultation, participatory development models, and transparency measures, as well as the enhanced safeguards operational steps in the DLIs.

76. **In addition, the costs that the Government has had to incur to address the needs of the 2016 drought in the country may also be a risk to the ability of the Government to sustain current block grant funding at local levels.** Sufficient funding for financing ESAP's CE activities is also not confirmed at this time and hence poses a risk to reaching the goals for scaling up SA and other CE activities.

77. **On the one hand, the level of risk associated with the technical implementation of the program is limited in the light of the vast experience to date and the findings of the technical assessment.** On the other hand, the team proposes to raise the technical risk rating to substantial because of the need to strengthen the coordination between MoFEC and sectoral ministries to fully implement the activities in all service delivery sectors. Stakeholder risks are less because donor partners are now coordinating support to basic service delivery after the break up from a joint program.

78. **The overall risk rating is considered as Substantial.** For the risk rating for the original operation and revisions to any ratings as a result of the AF, please refer to Systematic Operations Risk-Rating Tool (SORT) included in Annex 3.

## **VI. World Bank Corporate Requirements**

79. **Given the strong emphasis on equity in the operation, gender is strongly incorporated throughout the program.** The technical assessment (Annex 7) reveals that girls and women benefit from less access to services than boys and men in many aspects. For instance, in education, girls' enrollment and completion rates are lower than boys, especially in some regions. Moreover, women farmers have less access to agriculture extension services and support than their male counterparts. Hence, their fields are 23 percent less productive than male farmers. To address these gender gaps, several of the DLIs related to sectoral outcomes in agriculture and education focus specifically on women's access to agriculture extension services and girls' school completion rates. The health-related indicators are strongly focused on maternal and child health. The investment component will also help address the gender gaps in the sectors but strengthening the quality of data collected and the analysis produced to generate gender disaggregated information to inform decision making.

80. **In addition, there is a big emphasis in women's participation in CE and planning processes for local level investments.** The Incremental Environmental and Social System Assessment (ESSA) (disclosed May 29, 2017) identified that while often regions have gender focal points assigned, the awareness of how to integrate women's issues in environmental and social assessment for local projects is limited. To better integrate women in Woreda-level decision making, the project takes a number of actions. First, MoEFCC should collaborate with the MoLSA and Ministry of Women's Affairs to incorporate issues of women and vulnerable groups in the assessments. Moreover, it is required that half of the participants in pre-budget discussion meetings are women. This requirement came about to ensure that both male and female voices are heard when it comes to their service needs. In the ESAP2 SA program, a gender-responsive budgeting tool has been developed and has been implemented for the past two years. To encourage women's participation throughout the SA cycle, it is mandatory that women are part of every SA Committee. The impact evaluation currently underway will reveal the level of effectiveness of the initiatives. An internal assessment by the ESAP2 management agency revealed that gender responsiveness fared well under the project. Of the total joint service delivery improvement action plans that were implemented as a result of SA, 93 percent were found to have addressed specific needs of women against a target of 50 percent at project effectiveness. In addition, in participating Woredas, 81 percent of the

women judged the quality of services provided following SA as good compared to a target of 61 percent. Anecdotal evidence based on field monitoring visits also shows that there is an increasing level of participation among women and other vulnerable groups such as youth, the elderly and the disabled. The PSNP SA Pilot during ESAP2 was able to bring a stronger focus to the most vulnerable groups in Ethiopia to include those citizens that are food insecure (vulnerability in Ethiopia is most commonly manifested as chronic food insecurity) and selected as a result of a strong community-based targeted process. When success factors for effectively integrating vulnerable individuals into ESAP2 were identified, the Management Agency and civil society organizations (CSOs) incorporated as much of this learning into their ongoing activities, as possible. Participation of vulnerable groups will continue to be strengthened in the ESPES program-financed Woredas.

81. **The climate risk screening for the program has determined potential risks associated with drought and extreme weather in lowland and pastoral areas of the country.** Access to quality basic services may be negatively affected by recurrent droughts. It may also be affected by the way of life of the population, which to a large extent is mobile in pastoral areas. The World Bank team will work with the Government on alternative approaches to improve access to basic services by this population group who live, in most cases, in poorly performing Woredas. The system-strengthening component of the program will also focus on these Woredas to build their capacities to improve and maintain service delivery in times of drought and extreme weather.

82. **Engaging citizens in service delivery in their community is an integral part of the ESPES program and a prerequisite to supporting decentralized basic service delivery in Ethiopia.** The Government feels strongly about providing citizen's a voice to allow equal access to quality services and strongly supports the CE component of the ESPES program. CE was initiated under the PBS projects and aimed at strengthening the demand for quality basic services for all. These CE initiatives include three pillars: FTA, the GRM, and the SA program. In the proposed AF, the scale up of FTA and GRM activities in the regions and Woredas are supported through DLI 7. It also includes two actions to more strongly institutionalize CE in the Government's own activities for service delivery. Scale up of the ESAP is financed through the investment component.

83. 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 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 [www.worldbank.org/grs](http://www.worldbank.org/grs). For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

### Annex 1: Revised Results Framework and Monitoring Indicators

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI No.	Unit of Measurement	Baseline (Year) 2017	End Target (Year) 2020	Rationale for Changes from Original
<b>Results Area 1:</b> Ensuring equitable access to basic services	Per capita increase in budgeted Federal Government block grant transfers to regions, excluding Addis Ababa		1	ETB	1,240 (budgeted for EFY2010)	1,696 (budgeted for EFY2013)	Scaled up target (endline based on an estimated 10%, 11%, and 12% annual increase from last year)
	Improved Net Enrollment Rate for grades 5–8 in bottom 20% Woredas		5a	%	17.3	28.3	The revised indicator extends the list of poor performing Woredas to 20%, while the original indicator considers only 10% of Woredas
	Increased grade 8 completion rates for girls in bottom 20% of Woredas (New)		5a	%	12.5	20.5	Indicator added to focus more on outcomes
		Increase proportion of qualified teachers grade 1-4 (diploma level) in 4 regions (Afar, Somali, SNNP, Oromia)	4a	%	52	60	These regions contain more than 95% of the bottom 20% of Woredas
		Improved gender parity index in grade 5–8 net enrollment rates in bottom 20% of Woredas (New)		%	82	92	Indicator added to monitor gender equity
		Share of primary schools (grade 1–8) with full Water, Sanitation, and Hygiene (WaSH)		%	2	12	Indicator added to stress the importance of utilities for improving girls' outcomes

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI No.	Unit of Measurement	Baseline (Year) 2017	End Target (Year) 2020	Rationale for Changes from Original
		facilities (excluding Addis Ababa) (New)					
	Improved geographic equity in Penta 3 outcomes in bottom 20% Woredas		5a	%	56.4 (EFY2009 July-April data)	62.4 (EFY2012 data)	The revised indicator extends the list of poor-performing Woredas to 20%, while the original indicator considers only 10% of Woredas
	Births attended by a skilled birth attendant (New)			%	72	95	Indicator added to focus more on outcomes
		Antenatal care +4 rate (New)		%	76	95	Indicator added to focus more on outcome (all four rounds of visits)
		Availability of water services at health facilities in the bottom 4 regions (Average of Afar, Oromia, Somali, Gambella) (New)		%	28	56	Indicator added to reflect the importance of utilities for achieving outcomes
		Increased number of health extension workers qualified to Level 4 standard in 4 regions (Afar, Oromia, Somali, Amhara)	3	%	11,118	18,351	The original indicator measured the increase in total number of HEWs (diploma level) nationwide; the new indicator measures HEWs the deployed in the 4 regions with lowest skilled birth attendance rate
	Increased number of female-headed rural households accessing			Number	4,253,000	5,325,000	n.a.

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI No.	Unit of Measurement	Baseline (Year) 2017	End Target (Year) 2020	Rationale for Changes from Original
	improved agricultural extension services						
		Increased proportion of qualified female agricultural development agents (diploma level)	2	%	20	26	n.a.
	58% of mothers with children aged 0-23 months (PSNP households only) living in PSNP Woredas in Highland areas have had contact with a HEW during the past 3 months		12	%	33% (January 2016)	58% (January 2020)	Indicator added to improve results in malnutrition consistent with the Early Years agenda
		In 50% of PSNP Woredas in Highland areas at least 50% of deployed frontline workers have received nutrition training		%	Frontline service providers are not adequately trained on nutrition BCC	In 50% of PSNP Woredas in Highland area 50% of deployed frontline workers have received nutrition training	
		Strengthen Woreda level coordination platform, using existing ToR, in PSNP Woredas		Yes/No	The existing Woreda level nutrition coordination is not functioning well	Woreda level coordination platform is in place, consistent with agreed ToR, in PSNP Woredas	
<b>Results Area 2:</b> Enhancing citizen	Enhancing transparency and accountability through		7	%	36% of Woredas with	65% of Woredas with at least	New indicators are focused scaling up FTA, GRM, and SA in

<b>Results Areas Supported by PforR</b>	<b>PDO/Outcome Indicators</b>	<b>Intermediate Results Indicators</b>	<b>DLI No.</b>	<b>Unit of Measurement</b>	<b>Baseline (Year) 2017</b>	<b>End Target (Year) 2020</b>	<b>Rationale for Changes from Original</b>
engagement and environmental and social management capacity	increasing number of Woredas conducting pre-budget discussions				46% female participation	30% female participation	Woredas and targets are scaled up
		Enhancing transparency and accountability through increasing share of Woredas and regions/city administration that have assigned GRM officers/staff	7	%	80% of Woredas in 8 regions/city administrations have assigned GRM officers	80% of Woredas in 11 regions/city administrations have assigned GRM officers	
	Expansion of social accountability program in additional Woredas			Number of Woredas	Social accountability program conducted in 223 Woredas	Social accountability program conducted in 500 Woredas (CPF target)	
		Government framework for CE developed	7	Yes/No	No	Yes	New indicators are added to capture level of institutionalizing of CE in Government and local level implementation
		50% of actions identified in JAPs have been implemented in 60% of SA Woredas that had JAPs by January 1, 2019	7	%	No systematic monitoring of implementation of JAPs	50% of actions identified in JAPs have been implemented in 60% of SA Woredas that had JAPs by January 1, 2019	
	Improved environmental and social management capacity at Woreda level		6	Number of Woredas	No systematic monitoring of ESIA's	250 Woredas have environmental and social impact assessment (ESIA) system in place	Scaled up and outcome focused targets

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI No.	Unit of Measurement	Baseline (Year) 2017	End Target (Year) 2020	Rationale for Changes from Original
		Staff of basic service sectors and oversight bodies trained on the ESMS Operational Manual (New)		Number of staff	200	500	Scaled up and outcome focused targets
		ESMS Operational Manual customized in the remaining five regions and two city - administrations (New)		Number of regions	0	11	Under the original ESPES program, 4 regions are expected to customize the OM by 2018, end target will be 11
<b>Results Area 3:</b> Deepening fiduciary aspects of basic service delivery	Establishment of a Government system for benchmarking Woreda public financial management performance (PFM Benchmarking Rating)		8	Text	Operational guideline for PFM Woreda benchmarking has been developed; Cash management 19%; and Bank reconciliation 45%	Improve results on the selected PFM indicators: Cash management to 50%; and Bank reconciliation to 65%	New targets scale up the old one and become more outcome focused
		Benchmarking-related PFM reform program is drafted and implemented for the 50% of Woredas with lowest benchmark score (New)		Number of Woredas	None	500	The PFM Benchmarking exercise was launched under the ESPES program. It should be followed by a reform program to produce results.
		Internal audit functions in the subregional levels are properly staffed and trained (New)		%	53.5% of Woredas have 68% of their internal audit staffing requirements	80% Woredas have fully functional internal audit staffing according to the structural	Internal audit should help in the identification and resolution of internal control weaknesses. Internal audit

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI No.	Unit of Measurement	Baseline (Year) 2017	End Target (Year) 2020	Rationale for Changes from Original
					filled	requirement	committees have been settled but the function remains weak
	Procurement performance reported by the regional regulatory bodies based on KPIs on three basic sectors (agriculture, health, education) (New)		9	Number of regions	4	9	Expanded from original to additional regions
		Procurement Audit carried out annually on on 10% of Woredas and on all three basic sectors (agriculture, health, education) by each regional procurement regulatory body and reported to regional cabinet (New)		%	10	30 (cumulative over 3 years)	
	Strengthened Capacity of Woredas to effectively respond to F&C complaints including disaggregation of data and decision on cases (New)		10c	%	Decisions on cases are not regularly followed up	25% Woredas referred F&C cases to REACCs for action and report the same to BoFEDs	New targets focus on applying the training and implementing the audit findings
		Increased human resource capacity of Woredas to effectively respond to fraud and corruption complaints (New)		%	Ethics officers assigned (full time deployment) in 50.7% of rural Woredas in 9 Regional States	Assignment of ethics officers (full time deployment) in 60% of Woredas	



Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI No.	Unit of Measurement	Baseline (Year) 2017	End Target (Year) 2020	Rationale for Changes from Original
					and Dire Dawa city administration <sup>9</sup>		
		Strengthened capacity of Woreda Council finance and budget standing committee members to provide effective oversight, transparency and accountability for budgets (New)	10b	%	Woreda Budget and Finance Standing Committee review annual audit findings and action has been taken in 15% of the Woredas where audit report is submitted on Woreda Treasury accounts by ORAGs	Woreda Budget and Finance Standing Committee review annual audit findings and action has been taken in 25% of the Woredas where audit report is submitted on Woreda Treasury accounts by ORAGs	
<b>Results Area 4:</b> Improved development information and data for service delivery	Population and Housing Census conducted, results released, and census microdata available online (New)		11	Text	Last PHC conducted in 2007	Microdata of 2017 PHC publically accessible online	Original indicator focuses on availability of data at subnational levels collected from lower levels through MIS, while the revised indicator focuses on national population census
		Analytical products (reports, bulletins, studies, and so on) featuring statistics on		Text	0	At least two per year for each sector/agency supported	

<sup>9</sup> Ethics officers assigned and/or delegated in 80.2 percent of Woredas in nine Regional States, and Dire Dawa City Administration. But the share of Woredas who have a fulltime deployment is 50.7 percent.

<b>Results Areas Supported by PforR</b>	<b>PDO/Outcome Indicators</b>	<b>Intermediate Results Indicators</b>	<b>DLI No.</b>	<b>Unit of Measurement</b>	<b>Baseline (Year) 2017</b>	<b>End Target (Year) 2020</b>	<b>Rationale for Changes from Original</b>
		sectoral outcomes and challenges are prepared and disseminated (new and additional outputs as a result of the ESPES program support)					

### Indicator Description

Indicator Name (No.)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	Rationale for Change
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 (from Treasury/domestic source only) divided by the population forecast using the 2007 census. This excludes Addis Ababa as it does not receive block grant transfers from the federal government	Annual	Block Grants (MoFEC annual budget) population forecasts (2007 census, CSA)	For block grant transfers published federal government budget and for population forecasts CSA's publically available forecasts on population	MoFEC and CSA	n.a.
Improved Net Enrollment Rate grades 5–8 in bottom 20% Woredas	Measures average NER for the list of 20% Woredas included for education in the Technical Assessment annex	Annual	EMIS	Administrative data (EMIS produces NER)	MoE	Scope of the program increased to cover 20% poorly performing Woredas
Increased proportion of qualified teachers grade 1-4 (diploma level) in 4 regions (Afar, Somali, SNNP, Oromia)	The number of qualified teachers for grades 1–4 who have obtained a diploma as a share of total teachers for grades 1–4 in each region (average across the four regions). Cumulative.	Annual	EMIS	Administrative data (EMIS produces teacher qualification as part of yearly abstract)	MoE	Teacher qualification in first cycle primary school in these regions is found to be low
Increased grade 8 completion rates for girls in bottom 20% of Woredas	Measures average girls' grade 8 completion rate for the list of 20% Woredas for education included in the Technical Assessment annex	Annual	EMIS	Administrative data (EMIS produces girls' grade 8 completion rates)	MoE	Indicator added to monitor education outcomes Grade 8 girls' completion rates in bottom 20% is lower than boys
Improved gender parity index in grade 5-8 net enrollment rates in bottom 20% of Woredas	Measures the ratio of girls to boys NERs for the list of 20% Woredas for education included in the Technical Assessment annex	Annual	EMIS	Administrative data (EMIS produces grade 5–8 NER GPI rates)	MoE	Indicator added to monitor gender equity

<b>Indicator Name (No.)</b>	<b>Description</b>	<b>Frequency</b>	<b>Data Source</b>	<b>Methodology for Data Collection</b>	<b>Responsibility for Data Collection</b>	<b>Rationale for Change</b>
Share of primary schools (grade 1-8) with full Water, Sanitation, and Hygiene (WaSH) facilities (excluding Addis Ababa) (New)	Measures the share of all primary schools (excluding Addis Ababa) that have WaSH complete services (using indicator in Technical Assessment annex)	Annual	EMIS	Administrative data (EMIS produces data on school WaSH)	MoE	Indicator added to stress the importance of utilities for improving girls' outcomes
Improved geographic equity in Penta 3 outcomes in bottom 20% of Woredas	Measures average Penta 3 vaccination rate for the list of 20% Woredas for health included in the Technical Assessment annex (definition: number of children aged 12-23 months that are vaccinated with all 3 rounds of Penta 3 divided by number of children aged 12-23 months living in the woreda according to population projections from the 2007 national census)	Annual	HMIS	Administrative data (HMIS produces Penta 3 vaccination coverage rates)	MoH	Program scope increased to cover 20% poorly performing Woredas
Increased number of health extension workers qualified to Level 4 standard in 4 regions (Afar, Oromia, Somali, Amhara)	The total number of deployed qualified HEWs (diploma level), in the four regions. Cumulative. To qualify for level 4 (diploma level), HEWs are expected to have two years of practical experience and get formal training for an additional year	Annual	HMIS	Administrative data (HMIS produces profiles and number of HEWs)	MoH	The problem on quality of staffing is severe in 4 regions with the lowest skilled birth attendance rate
Antenatal care +4 rate in bottom 20% of Woeredas	Percentage of women who utilized four rounds of antenatal care provided by skilled birth attendance for reasons related to pregnancy as a percentage of live births in a given time period	Annual	HMIS	Administrative data	MoH	Indicator added to focus more on outcome
Availability of water services at health facilities in the bottom 4 regions (Afar, Oromia, Somali, Gambella)	The number of health facilities (health centers and hospitals) that are connected to water supply (average across the four regions)	Annual	HMIS	Administrative data	MoH	Indicator added to reflect the importance of utilities for achieving outcomes
Births attended by a skilled birth attendant	Percentages of deliveries assisted by doctors, nurses, or midwives	Annual	HMIS	Administrative data	MoH	Indicator added to focus more on

Indicator Name (No.)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	Rationale for Change
						outcome
Increased number of female-headed rural households accessing agricultural extension services	Increased number of female-headed rural households accessing improved agricultural extension services	Annual	Agricultural Management Information System (AgMIS)	Administrative data	MoANR	n.a.
Increased proportion of qualified female agricultural development agents (diploma level)	Measures the share of DAs that are female and have a diploma of total number of DAs (male and female) deployed across the country. Agricultural DAs trained to a minimum qualification according to Ministry of Agriculture (diploma level) from an accredited Agricultural Transformation Vocational Training center.	Annual	AgMIS	Administrative data (AgMIS reports on number of DAs and their profile every)	MoANR	n.a.
58% of mothers with children aged 0-23 months (PSNP households only) living in PSNP Woredas in Highland areas have had contact with a HEW during the past 3 months	58% of mothers with children aged 0-23 months (PSNP households only) living in PSNP Woredas in Highland areas have had contact with a HEW during the past 3 months	Every two years (PSNP data)	International Food Policy Research Institute (IFPRI) Impact Assessment of PSNP program survey data (2016, 2018 and 2020)	IFPRI Impact Assessment of PSNP program survey data (2016, 2018 and 2020)	IFPRI	Child malnutrition is an important factor for early years's/childhood development and the program added this as an objective
In 50% of PSNP Woredas in Highland areas at least 50% of deployed frontline workers have received nutrition training	In 50% of PSNP Woredas in Highland areas at least 50% of deployed frontline workers (HEWs, DAs, Social Workers) have received nutrition training (using PSNP nutrition BCC training module)	After 2 years	Woreda Health and Agriculture Offices administrative data	Administrative data	Woreda Health and Agriculture Offices administrative data	
Strengthen Woreda level coordination	MoH has developed ToRs which describe the necessary structure and	After 1 year	MoH and Woreda	Letter	Regional Health	

<b>Indicator Name (No.)</b>	<b>Description</b>	<b>Frequency</b>	<b>Data Source</b>	<b>Methodology for Data Collection</b>	<b>Responsibility for Data Collection</b>	<b>Rationale for Change</b>
platform, using existing ToR, in PSNP Woredas	functioning of the nutrition coordination platforms and each Woreda Health Office in PSNP Woredas has sent a letter to their respective Regional Health Bureau (RHB) indicating that a nutrition coordination platform is in place consistent with the new ToR and RHB reports to MoH		Health Offices		Bureaus	
Enhancing transparency and accountability through increasing number of Woredas conducting pre-budget discussions	Share of Woredas that have undertaken pre-budget discussions and the average share of participants that are women	Annual	Progress report	Administrative data	MoFEC	n.a.
Enhancing transparency and accountability through increasing share of Woredas and regions/city administration that have assigned GRM officers	Share of Woredas that have assigned a GRM officer and the number of regions where those Woredas are located	Annual	Progress report	Administrative data	MoFEC	n.a.
Expansion of existing Social Accountability program in additional new Woredas	SA tools are implemented in 500 Woredas	Annual	Progress report	Administrative data	MoFEC	n.a.
Government framework for CE developed	MoFEC-led Framework for CE Report developed through a participatory process	Year 3	Progress report	Report from MoFEC	MoFEC	Indicator added to improve mainstreaming of SA
50% of actions identified in JAPs	Of the total Woredas that had JAPs developed as a result of the application	Year 3	ESAP3	Administrative data (data collected by	MoFEC	Indicator added to ensure

<b>Indicator Name (No.)</b>	<b>Description</b>	<b>Frequency</b>	<b>Data Source</b>	<b>Methodology for Data Collection</b>	<b>Responsibility for Data Collection</b>	<b>Rationale for Change</b>
have been implemented in 60% of SA Woredas that had Joint Action Plans by January 1, 2019	of SA tools by January 1, 2019, 60% will have implemented half of the total actions identified in JAPs in the Woreda		Management Agency data	ESAP3 Management Agency)		response by service provider to citizens
Improved environmental and social management capacity at Woreda level	The number of Woredas that have environmental and social impact assessment (ESIA) system in place	Annual	MoEFCC annual report	MoEFCC administrative data	MoEFCC and MoFEC	Indicator added to focus more on outcome
Staff of basic service sectors and oversight bodies trained on the ESMS Operational Manual	The number of Woreda basic sectors and environmental protection agency staff trained on the OM, using the training modules developed	Annual	MoEFCC annual report	MoEFCC administration data	MoEFCC	Outer years targets are scaled up
ESMS Operational Manual customized in the remaining five regions and two city administrations	ESMS OM customized in Amhara, Oromia, SNNP, Tigray, and Harari regions, as well as in Dire Dawa and Addis Ababa city administrations. It will be deemed customized if the OM is adopted and applied in these regions and cities	Annual	MoEFCC annual report	MoEFCC administrative data	MoEFCC	Indicator added to focus more on outcome
Establishment of a Government system for benchmarking Woreda public financial management performance (PFM Benchmarking Rating)	Describes the implementation of Woreda benchmarking survey and monitors status of key PFM indicators using the survey	Annual	Implementation report	Administrative data	MoFEC	n.a.
Benchmarking-related PFM reform program is drafted and implemented for the 50% of Woredas	Ensure that the benchmarking evaluation bear fruits in the form of PFM reform programs for at least 50% of the Woredas	Annual	BoFEDs and MoFEC	Report from regions to MoFEC	BoFEDs	Make sure that the benchmarking evaluation generates an

<b>Indicator Name (No.)</b>	<b>Description</b>	<b>Frequency</b>	<b>Data Source</b>	<b>Methodology for Data Collection</b>	<b>Responsibility for Data Collection</b>	<b>Rationale for Change</b>
with the lowest benchmarking score						effective reform program and is actually owned by the authorities
Internal audit functions in the sub regional levels are properly staffed and trained	Improve the staffing, training, and effectiveness of the internal audit function at subregional levels	Annual	BoFEDs	Report from regions to MoFEC	BoFEDs	Although audit committees are installed in most Woredas, internal audit remains weak in most budgetary entities
Procurement performance reported by the regional regulatory bodies based on KPIs on three basic sectors (agriculture, health, education)	Insures regional procurement regulatory bodies have strengthened function, and basic service infrastructure and supply needs at decentralized level are delivered timely, effectively, and transparently	Annual	Performance report by regional regulatory bodies	Data collected by regional regulatory bodies	MoFEC	n.a.
Procurement Audit carried out annually on 10% of Woredas and on all three basic sectors (agriculture, health, education) by each regional procurement regulatory body and reported to regional cabinet	Provides program procurement fiduciary assurance, with the country system having oversight on procurement activities at decentralized level	Annual	Procurement audit reports by regional regulatory bodies	Procurement audit reports	MoFEC	n.a.
Increased human resource capacity of Woredas to effectively respond to fraud and corruption complaints	Monitors assignment and proper functioning of ethics officers in Woredas	Annual	Progress report	Administrative data	MoFEC	n.a.



<b>Indicator Name (No.)</b>	<b>Description</b>	<b>Frequency</b>	<b>Data Source</b>	<b>Methodology for Data Collection</b>	<b>Responsibility for Data Collection</b>	<b>Rationale for Change</b>
Strengthened capacity of Woreda Council finance and budget standing committee members to provide effective oversight, transparency and accountability for budgets	Monitors the share of Woredas where audits submitted on Woreda Treasury accounts by ORAGs have been ratified	Annual	Continuous audit	Administrative data	MoFEC	n.a.
Strengthened capacity of Woredas to effectively respond to F&C complaints including disaggregation of data and decision on cases	Monitors the share of Woredas where actions have been taken on F&C cases	Annual	Sample survey	Administrative data	MoFEC	Indicator added to monitor proper handling of F&C cases
Population and Housing Census conducted, results released, and census microdata available online	2017 PHC conducted, results released, and census microdata available online (microdata of 2017 PHC publically accessible online)	Once in ten years, new census planned 2017	Status report	Population census	CSA	The AF focuses on data production at federal levels and its public utilization
Analytical products (reports, bulletins, studies, and so on) featuring statistics on sectoral outcomes and challenges are prepared and disseminated	Sectoral ministries have undertaken additional analysis (at least two per sector/agency supported) using available sectoral data and produced analytical products that are presented and disseminated with the aim to inform decision making	Annual	Inventory of products	Inventory of products	MoE, MoH, MoANR, MoFEC	Indicator added to monitor analysis of data for decision making

## Annex 2: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

### Disbursement-Linked Indicator Matrix

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
<b>DLI 1:</b> Per capita increase in Federal Government block grant transfers to Regions, excluding Addis Ababa	\$90,000,000 (original: \$90,000,000)	15	ETB 1,240 per capita (budget EFY2010)		ETB 1,364 (10% increase in EFY2011 budget)		ETB 1,514 (11% increase in EFY2012 budget)		ETB 1,696 (12% increase in EFY2013 budget)	Scaled-up targets for outer years
Status of Achievement/ Disbursement	\$60,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):					\$30,000,000		\$30,000,000		\$30,000,000	
<b>DLI 2:</b> Increased proportion of qualified female agricultural development agents (diploma level)	\$40,000,000 (original: \$30,000,000)	6.7	20% in EFY2008			24.5% in EFY2010		26% in EFY2011		Scaled-up targets for outer years
Status of Achievement/ Disbursement	\$20,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):						\$20,000,000		\$20,000,000		
<b>DLI 3a:</b> Increased number of health extension workers qualified to Level 4 standard in 4 regions (Afar, Oromia, Somali, Amhara)	\$30,000,000 (original: \$30,000,000)	5	11,118 in EFY2008		13,499 in EFY2010		15,225 in EFY2011		18,351 in EFY2012	New DLI focuses on the 4 regions with the lowest skilled

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
Status of Achievement/ Disbursement	\$20,000,000 disbursed as of July 18, 2017									birth attendance rate
Allocated amount (US\$):					\$10,000,000		\$10,000,000		\$10,000,000	
<b>DLI 4a:</b> Increased proportion of qualified teachers grade 1-4 (diploma level) in 4 regions (Afar, Somali, SNNP, Oromia)	\$30,000,000 (original: \$60,000,000)	5	52% in ECY2008			57% in ECY2010		60% in ECY2011		Original DLI 4: Increases in total number of students enrolled (net) in grades 5–8, (all regions excl. Addis Ababa)
Status of Achievement/ Disbursement	\$40,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):						\$15,000,000		\$15,000,000		
<b>DLI 5a:</b> Improved geographic equity in education and health service delivery outcomes: Net Enrollment Rate and grade 5-8, Girls Completion Rate grade 8, Penta 3 vaccine coverage indicators for the	\$55,000,000 (original: \$60,000,000)	9.2	Penta 3 bottom 20%: 56.4% EFY2009 NER (grades 5–8) bottom 20%: 17.3% ECY2008; Girls (grade 8) completion		Penta 3 Coverage for children under one year of age in the Bottom 20% of Woredas is 57.4% for EFY2010	a) NER grade 5-8 in the Bottom 20% of Woredas is 24.3% for ECY2010; b) Completion rate for girls in Grade 8 in the Bottom 20% of Woredas is 16.5% for ECY2010		a) NER grade 5-8 in the Bottom 20% of Woredas is 28.3% for ECY2011; b) Completion rate for girls in Grade 8 in the Bottom	Penta 3 Coverage for children under one year of age in the Bottom 20% of Woredas is 62.4% for EFY2012	Outer years targets outcome focused and scaled up to bottom 20% of Woredas

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
bottom performing 20% of Woredas			bottom 20%: 12.5% ECY2008					20% of Woredas is 20.5% for ECY2011		
Status of Achievement/ Disbursement	\$50,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):					\$5,000,000	\$20,000,000		\$20,000,000	\$10,000,000	
<b>DLI 6:</b> Improved environmental and social management capacity at Woreda level	\$50,000,000 (original: \$50,000,000)	8.3	ESMS OM completed and first - round front-line worker training in ESIA completed; no systematic monitoring of ESIA				100 Woredas have environmental and social impact assessment (ESIA) system in place		250 Woredas, cumulative, have environmental and social impact assessment (ESIA) system in place	Scaled up and outcome focused targets for outer years
Status of Achievement/ Disbursement	\$15,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):							\$25,000,000		\$25,000,000	
<b>DLI 7:</b> Enhanced transparency and accountability through citizen engagement	\$75,000,000 (original: \$60,000,000)	12.5	37% of Woredas have conducted pre-budget discussions with 46%			Nine (9) regions have assigned GRM officers in at least 80% of their Woredas	65% of Woredas have conducted pre-budget discussions, with at least	a) 50% of actions identified in JAPs have been implemented in 60% of		Outer years focus on scaling-up FTA and GRM activities

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
			women; 6 regions and 2 city administrations have assigned GRM officers; implementation of JAPs is not systematically monitored; no national CE framework exists in EFY2009				30% women participating in such discussions	SA Woredas that had JAPs by January 1, 2019;  b) Government framework for CE developed		in Woredas and institutionalizing CE in Government operations and local-level implementation
Status of Achievement/ Disbursement	\$40,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):						\$25,000,000	\$25,000,000	\$25,000,000		
<b>DLI 8:</b> Establishment of a Government system for benchmarking Woreda public financial management ("PFM") performance (the "PFM Benchmarking Rating")	\$40,000,000 (original: \$42,000,000)	6.7	Operational guideline for PFM Woreda benchmarking has been developed; no PFM strategy exists; Cash	Develop federal PFM reform strategy		All 9 regions and 2 city-administrations adopt PFM strategy	Improve results on the selected PFM indicators on: i) Cash management-40% Woredas submits to BoFED on a quarterly basis (as part of the		a) Repeat PFM benchmarking  b) Improve results on the below selected PFM indicators:	The major change is linking the benchmarking to reform and results with a mix of policy angle

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
			managem nt score: 19%; Bank reconciliati on score: 45% in EFY2009				financial report) the copies of their cash count statements iii) Bank reconciliation - 55% Woredas submits to BoFED on a quarterly basis (as part of the financial report) the copies of their bank reconciliation statements, all in EFY2011		i) Cash management - 50% Woredas submit to BoFED on a quarterly basis (as part of the financial report) the copies of their cash count statements iii) Bank reconciliatio n - 65% Woredas submits to BoFED on a quarterly basis (as part of the financial report) the copies of their bank reconciliatio n statements, all in EFY2012	(PFM reform strategy) and specific results (improve ment to selected indicators)

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
Status of Achievement/ Disbursement	\$10,500,000 disbursed as of July 18, 2017									
Allocated amount (US\$):				\$5,000,000		\$5,000,000	\$10,000,000		\$20,000,000	
<b>DLI 9:</b> Oversight functions of Regional procurement regulatory bodies has been improved	\$40,000,000 (original: \$20,000,000)	6.7	Procurement performance monitoring guideline developed and data collection started EFY2009	Procurement performance is reported by 4 regions (Amhara, Oromia, SNNP, Tigray) based on KPIs on three basic sectors (agriculture, health, education) pertaining to analyzed data captured in EFY2009		Procurement performance is reported by 4 regions (Amhara, Oromia, SNNP, Tigray) based on KPIs on three basic sectors (agriculture, health, and education) pertaining to analyzed data captured in EFY2010		Procurement data entry streamlined and continue to be collected based on KPIs on the three basic sectors (agriculture, health, education) in the nine regions	Procurement performance is reported by the 9 regions based on the KPIs on three basic sectors (agriculture, health, education) pertaining to analyzed data captured in EFY2011	Outer years focus on applying the KPIs to report on procurement performance in regions
Status of Achievement/ Disbursement	\$12,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):				\$10,000,000		\$10,000,000		\$10,000,000	\$10,000,000	
<b>DLI 10b:</b> Strengthened capacity of Woreda Council finance and budget standing committee members	\$15,000,000 (original: \$18,000,000)	2.5	Training manual developed, 10% of Woredas received and			Woreda Budget and Finance Standing Committee review annual		Woreda Budget and Finance Standing Committee review		Outer year targets focus on applying the training

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
to provide effective oversight, transparency and accountability for budgets			reviewed audit report findings and followed up recommendation through their Budget and Finance Standing Committee			audit findings and action has been taken in 15% of the Woredas where audit report is submitted on Woreda Treasury accounts by ORAGs		annual audit findings and action has been taken in 25% of the Woredas where audit report is submitted on Woreda Treasury accounts by ORAGs		and implementing the audit findings
Status of Achievement/ Disbursement	\$6,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):						\$5,000,000		\$10,000,000		
<b>DLI 10c:</b> Strengthened capacity of Woredas to effectively respond to F&C complaints including disaggregation of data and decision on cases	\$25,000,000 (original: \$30,000,000)	4.2	Record keeping is not IT-based and decision on cases are not regularly followed up		100 Woredas use electronic record keeping (Excel or more advanced system) and use this system to report to BoFED on F&C				25% of Woredas where at least one F&C case has been recorded with the ethics officer have referred the cases to REACCs for action	Original DLI: DLI 10a: Increased human resource capacity of Woredas to effectively respond to F&C



	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
					cases/tip offs according to the agreed format in EFY2010					complaints
Status of Achievement/ Disbursement	\$20,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):					\$10,000,000				\$15,000,000	
<b>DLI 11:</b> Improved development information and data for service delivery	\$60,000,000 (original: \$60,000,000)	10	Last PHC conducted in 2007	Fieldwork for the 2017 PHC completed and completion report submitted to Census Commission	Preliminary population numbers from the 2017 PHC produced and report available online		Microdata of 2017 PHC publically accessible online			Outer years focus on supporting the 2017 PHC including the release of results and census microdata
Status of Achievement/ Disbursement	\$12,000,000 disbursed as of July 18, 2017									
Allocated amount (US\$):				\$15,000,000	\$20,000,000		\$25,000,000			
<b>DLI 12:</b> Improve nutrition services	\$50,000,000 (original: US\$0)	8.3	The existing Woreda level nutrition coordination is not functioning well;		Woreda level coordination platform is in place, consistent with agreed ToR, in			In 50% of PSNP Woredas in Highland areas at least 50% of deployed frontline workers	58% of mothers with children aged 0-23 months (PSNP households only) living in PSNP Woredas in	New DLI added to improve results in malnutrition consistent with the Early

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI achievement						Rationale for Change
				May 1, 2018	November 1, 2018	May 1, 2019	November 1, 2019	May 1, 2020	November 1, 2020	
			Frontline service providers are not adequately trained on nutrition BCC;  58% of mothers with children 0- 23 months have had contact with HEWs in the last 3 months as per the IFPRI Impact Assessment from January 2016		PSNP Woredas			have received nutrition training	Highland areas have had contact with a HEW during the past 3 months	Years agenda
Status of Achievement/ Disbursement	\$0 disbursed as of July 18, 2017									
Allocated amount (US\$):					\$15,000,000			\$15,000,000	\$20,000,000	
<b>Total Financing Allocated:</b>	<b>\$600,000,000</b>	<b>100</b>		<b>\$30,000,000</b>	<b>\$90,000,000</b>	<b>\$100,000,000</b>	<b>\$125,000,000</b>	<b>\$115,000,000</b>	<b>\$140,000,000</b>	



**DLI Verification Protocol Table**

No.	DLI	Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification			Rationale for any Changes
				Data Source/Agency	Verification Entity	Procedure	
1	Per capita increase in budgeted Federal Government block grant transfers to regions, excluding Addis Ababa	The annual budget in per capita terms is equal to or exceeds the annual target	Yes	MoFEC (budget, as approved by parliament) CSA (population)	OFAG	OFAG verifies the achievement by consulting the annual budget document. OFAG submits a document to MoFEC verifying data before each November sessions of the semiannual joint Government/World Bank semiannual review. The verified information is then submitted by MoFEC to the World Bank in a consolidated DLI verification report as part of each semiannual Government/World Bank review.	n.a.
2	Increased proportion of qualified female agricultural development agents (diploma level)	The share of total qualified DAs (cumulative) is equal to or exceeds the annual target (definition: the number of qualified female DAs divided by total DAs)	No	MoANR Annual Statistics Report published in October each year  Previous fiscal year data should be used for each verification point	CSA	CSA uses the verification template jointly agreed with MoFEC and the World Bank in 2017 and applies appropriate and independent methods of verifying achievement. CSA submits a document to MoFEC, verifying data before each joint Government/World Bank semiannual review. The verified information is then submitted by MoFEC to the World Bank in a consolidated DLI verification report as part of each semiannual Government/World Bank review. CSA may hire independent consultants, with appropriate technical knowledge, to verify achievement.	A verification template to be used by all verifying agencies has been developed and agreed between MoFEC and the World Bank to strengthen the verification protocols
3a	Increased number of health extension workers qualified to Level 4 standard in 4 regions	The number of total qualified HEWs (cumulative) in the 4 regions is equal to or	No	MoH - Health and health-related Annual Indicators Report published in October each year	CSA	CSA uses the verification template jointly agreed with MoFEC and the World Bank in 2017 and applies appropriate and independent methods of verifying achievement. CSA submits a document to MoFEC, verifying data before each joint Government/World Bank semiannual	

No.	DLI	Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification			Rationale for any Changes
				Data Source/Agency	Verification Entity	Procedure	
	(Afar, Oromia, Somali, Amhara)	exceeds the annual target		Previous fiscal year data should be used for each verification point		review. The verified information is then submitted by MoFEC to the World Bank in a consolidated DLI verification report as part of each semiannual Government/World Bank review. CSA may hire independent consultants, with appropriate technical knowledge, to verify achievements	
4a	Increased proportion of qualified teachers grade 1-4 (diploma level) in 4 regions (Afar, Somali, SNNP, Oromia)	The share of total qualified teachers for grades 1–4 (cumulative) exceeds the annual target (definition: the number of qualified teachers for grades 1-4 divided by all teachers for grades 1-4)	No	MoE -Education Statistics Annual published in October each year  Previous fiscal year data should be used for each verification point	CSA	CSA uses the verification template jointly agreed with MoFEC and the World Bank in 2017 and applies appropriate and independent methods of verifying achievement. CSA submits a document to MoFEC, verifying data before each joint Government/World Bank semiannual review. The verified information is then submitted by MoFEC to the World Bank in a consolidated DLI verification report as part of each semiannual Government/World Bank review. CSA may hire independent consultants, with appropriate technical knowledge, to verify achievement.	
5a (1)	Improved geographic equity in education and health service delivery outcomes: Net Enrollment Rate and grade 5-8, for the bottom performing 20% of Woredas	The average NER across the Woredas listed in the Technical Assessment annex is equal to or above the annual target (definition: number of children aged 11-14 that are	Yes	MoE - Education Statistics Annual Abstract published in October each year, Woreda spot checks by CSA  Previous fiscal year data should	CSA	MoE/MoH will submit to MoFEC the federal level administrative data for each Woreda on the list of bottom 20% of Woredas. CSA will verify the achievement by doing spot checks of a 20% random sample of the Woredas on the list. At Woreda level, CSA will collect the enrollment rate/completion rate/Penta 3 coverage rate data from the Woreda level databases. In Woredas where the spot checked data coming from Woredas are different from the federal level data	

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				Data Source/Agency	Verification Entity	Procedure	
		enrolled in grades 5-8 respectively divided by the number of children aged 11-14 according to population projections from the 2007 national census)		be used for each verification point		the for the Woreda, the Woreda level data will replace the federal level data for that Woreda. Achievement will be based on the average of the adjusted list of bottom 20% of Woredas. CSA uses the verification template jointly agreed with MoFEC and the World Bank in 2017. CSA submits a document to MoFEC, verifying data before each joint Government/World Bank semiannual review. The verified information is then submitted by MoFEC to the World Bank in a consolidated DLI verification report as part of each semiannual Government/World Bank review. CSA may hire independent consultants, with appropriate technical knowledge, to verify achievement.	
5a (2)	Improved geographic equity in education and health service delivery outcomes: Girls Completion Rate grade 8 for the bottom performing 20% of Woredas	The average completion rate for girls in grade 8 across the Woredas listed in the Technical Assessment annex is equal to or above the annual target (definition: the total number of female students enrolled in the last grade of primary (regardless of age), minus the number of female students repeating or are readmitted to the last grade of primary, divided by the total	Yes	MoE - Education Statistics Annual Abstract published in October each year  Previous fiscal year data should be used for each verification point	CSA		

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				Data Source/Agency	Verification Entity	Procedure	
		female population of the standard entrance age (14 years) of the last grade of primary according to population projections from the 2007 national census)					
5a (3)	Improved geographic equity in education and health service delivery outcomes: Penta 3 vaccine coverage for the bottom performing 20% of Woredas	The average Penta 3 vaccination rate across the Woredas listed in the Technical Assessment annex is equal to or above the annual target (definition: number of children aged 12-23 months that are vaccinated with all 3 rounds of Penta 3 divided by the number of children aged 12-23 months according to population projections from	Yes	MoH - Health and health-related Annual Indicators Report published in October each year  Previous fiscal year data should be used for each verification point	CSA		

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				Data Source/Agency	Verification Entity	Procedure	
		the 2007 national census)					
6	Improved environmental and social management capacity at Woreda level	The DLI will be deemed to have been met if at least 100 Woredas (in November 2019) and 250 Woredas (in November 2020) have environmental and social impact assessment (ESIA) system in place (system in place means that there is an institutional setup with human resources and that vets projects/programs for environmental and social impacts)	November 2019: Yes  November 2020: Yes	MoFEC and MoEFCC, Woreda spot checks by CSA	CSA	Based on the list of woredas provided, CSA will verify the existence of the system through spot checks of a 20% random sample of woredas. CSA will check whether there exists a Woreda level institution responsible for ESIA with human resources, and projects are vetted for their environmental and social impacts. If the Woredas checked by CSA do not have a system in place according to the requirements for achievement, that Woreda will not be counted toward achievement. CSA uses the verification template jointly agreed with MoFEC and the World Bank in 2017. CSA submits a document, verifying data, to MoFEC. The verified information is then submitted to the World Bank by MoFEC before each semiannual Government/World Bank review. CSA may hire independent consultants, with appropriate technical knowledge, to verify achievements.	A verification template to be used by all verifying agencies has been developed and agreed between MoFEC and the World Bank to strengthen the verification protocols used.
7	Enhanced transparency and accountability through citizen engagement	The DLI will be deemed to have been met if 9 regions have assigned GRM officers in 80% of the Woredas in each region (May 2019); at least 65%	May 2019: Yes  November 2019: Yes  May 2020: a) Yes; b) No	Administrative data collected by MoFEC and ESAP 3 monitoring data	May 2019: EIO  November 2019: CSA  May 2020: CSA	May 2019: EIO cross checks the information using its regional offices.  November 2019 and May 2020 (a): CSA verifies by cross checking the achievements through its branch offices or by hiring an independent consultant(s) with appropriate technical knowledge to verify achievements.	A verification template to be used by all verifying agencies has been developed



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		of Woredas have conducted pre budget discussions with at least 30% female participation (November 2019); (a) 50% of actions identified in JAPs have been implemented (both funded and implemented as signed off on by Woreda Social Accountability Committees) in 60% of Woredas that are implementing ESAP3 and had JAPs by January 1, of 2019; and (d) Government framework for CE is developed (May 2020).				<p>May 2020 (b): CSA obtains formal documentation from the Government with a copy of the framework paper.</p> <p>Overall: EIO and CSA uses the verification template jointly agreed with MoFEC and the World Bank in 2017 and applies appropriate and independent methods of verifying achievement. CSA then submits its verification report to MoFEC. The verified information is then submitted to the World Bank by MoFEC before each semiannual Government/World Bank review</p>	and agreed between MoFEC and the World Bank to strengthen the verification protocols used.

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				Data Source/Agency	Verification Entity	Procedure	
8	Establishment of a Government system for benchmarking Woreda public financial management (“PFM”) performance (the “PFM” Benchmarking rating)	<p>May 2018: PFM Reform strategy is developed</p> <p>May 2019: Eleven (11) regions/city administrations adopt the strategy</p> <p>November 2019: Cash management and Bank reconciliation results are equal to or exceed targets on the percentage of Woredas</p> <p>November 2020: Repeat PFM benchmarking conducted and Cash management, and Bank reconciliation results are equal to or exceed targets on the percentage of Woredas</p>	<p>May 2018: No</p> <p>May 2019: No</p> <p>November 2019: Yes</p> <p>November 2020: Yes</p>	<p>May 2018: MoFEC</p> <p>May 2019: MoFEC</p> <p>November 2019: Reports from BoFED to MoFEC on improvement of the selected indicators on cash management and bank reconciliation</p> <p>November 2020: Second PFM Benchmarking Report that is publically disclosed and reports from BoFED to MoFEC on improvement on the selected indicators on cash management and bank reconciliation</p>	OFAG	<p>May 2018: OFAG reviews that the PFM Reform strategy is prepared by MoFEC and that is acceptable to the World Bank.</p> <p>May 2019: OFAG verifies in all regions if the strategy is adopted by regions and city administration as it is or adapted with minimal modifications and adopted. Adoption is defined as each BoFED having sent a letter to MoFEC and include the signed strategy which has been adopted by the region. Regions and city administration will submit the adoption letter along with their strategy to MoFEC. MoFEC sends all to OFAG. OFAG prepares verification report and submits to MoFEC. The verified information is then submitted to the World Bank by MoFEC before each semiannual Government/ World Bank review.</p> <p>November 2019 and November 2020: Woredas report to BoFED on a quarterly basis their monthly cash count and bank reconciliations as part of their reporting to BoFED on Woreda Treasury accounts. BoFED reviews Woreda reports and prepares consolidated report and submits to MoFEC on the number or percent of Woredas monthly cash count and bank reconciliations. MoFEC prepares summary report. Both regional and MoFEC’s summary report are sent to OFAG for verification. OFAG analysis reports and conducts field visits and</p>	A verification template to be used by all verifying agencies has been developed and agreed between MoFEC and the World Bank to strengthen the verification protocols used.

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				Data Source/Agency	Verification Entity	Procedure	
						<p>prepares verification report and submits to MoFEC for onward submission to World Bank.</p> <p>November 2020: BoFEDs conduct the second round PFM benchmarking with the process being led by MoFEC. Benchmarking report is prepared by each region following formats prescribed in the manual and as advised by MoFEC. A summary consolidated benchmarking report is prepared by MoFEC. Benchmarking Report is disclosed to the public through websites of the BoFED and MoFEC. Reports are sent to OFAG for verification. OFAG analysis reports and conducts field visits and prepares verification report and submits to MoFEC for onward submission to World Bank.</p>	
9 (1)	Oversight functions of regional regulatory procurement bodies has been improved: Procurement performance reported by the four regions (Amhara, Oromia, SNNP, Tigray) based on KPIs on three basic sectors	Procurement performance is reported by the four regions (Amhara, Oromia, SNNP, Tigray) based on KPIs on three basic sectors (agriculture, health, education)	Yes	The four regions' procurement regulatory bodies prepare performance reports	FPPPA	<p>FPPPA received the procurement performance reports from each region. FPPPA uses the verification template jointly agreed with MoFEC and the World Bank in 2017 and applies appropriate and independent methods of verifying achievement. FPPPA submits a document to the MoFEC, verifying data before each joint Government/World Bank semiannual review. The verified information is then submitted by MoFEC to the World Bank in a consolidated DLI verification report as part of each semiannual Government/World Bank review</p>	A verification template to be used by all verifying agencies has been developed and agreed between MoFEC and the World Bank to strengthen

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	(agriculture, health, education) pertaining to analyzed data captured in EFY2009						the verification protocols used
9 (2)	Oversight functions of regional regulatory Procurement bodies has been improved: Procurement performance reported by the four regions (Amhara, Oromia, SNNP, Tigray) based on KPIs on three basic sectors (Agriculture, Health, Education) pertaining to analyzed data captured in EFY2010	Procurement performance is reported by the four regions (Amhara, Oromia, SNNP, Tigray) based on KPIs on three basic sectors (agriculture, health, education)	Yes	The four regions' procurement regulatory bodies prepare performance reports	FPPPA		
9 (3)	Oversight functions of regional regulatory Procurement	Procurement data entry streamlined and continue to be collected based on KPIs on	Yes	The nine regions' procurement regulatory bodies prepare	FPPPA		

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				Data Source/Agency	Verification Entity	Procedure	
	bodies has been improved: Procurement data entry streamlined and continue to be collected based on KPIs on the three basic sectors (agriculture, health education) in the nine regions	the three basic sectors (agriculture, health education) in the nine regions		performance reports			
9 (4)	Oversight functions of regional regulatory Procurement bodies has been improved: Procurement performance reported by the nine regions based on KPIs on three basic sectors (agriculture, health, education) pertaining to analyzed data captured in	Procurement performance is reported by nine regions based on KPIs on three basic sectors (agriculture, health, education)	Yes	The nine regions' procurement regulatory bodies prepare performance reports	FPPPA		

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				Data Source/Agency	Verification Entity	Procedure	
	EFY2011 and 2012						
10b	Strengthened capacity of Woreda Council finance and budget standing committee members to provide effective oversight, transparency and accountability for budgets	The share of Woredas that have implemented the rectification (prepare action plan and report the action taken to the standing committee) of the annual audit findings (of Woreda treasury accounts) is equal to or exceed the annual target	No	Continuous Audit Report of Woredas by OFAG verifying the annual audit follow-up achievement by Woredas	OFAG	WoFED prepares reports including action plans and information of what rectification actions have been taken and submits to BoFEDs. BoFEDs further submits to MoFED. MoFED submits the status of the audit report rectification actions to OFAG. OFAG then will verify the report using their Continuous Audit mechanism of the following year. The verified information is then submitted by MoFEC to the World Bank in a consolidated DLI verification report as part of each semiannual Government/World Bank review	A verification template to be used by all verifying agencies has been developed and agreed between MoFEC and the World Bank to strengthen the verification protocols used
10c	Strengthened capacity of Woredas to effectively respond to F&C complaints including disaggregation of data and decision on cases	November 2018: The number of Woredas that use electronic record keeping (Excel or more advanced system) to report F&C cases to BoFEDs according to the agreed format is equal to or exceeds the target of 100.  November 2020: The share of	No	Administrative record for the manpower and compliant data of REACC	FEACC	November 2018: FEACC will verify the achievement by doing spot checks of a representative sample of Woredas. The indicator will be achieved if all sampled Woredas use an electronic record keeping system for reporting.  November 2020: Woredas send a status report to BoFEDs on the number of cases that they have referred to REACCs. BoFEDs submits the status reports to MoFEC and MoFEC forward it to FEACC for verification. The indicator will be achieved if 25% of Woredas referred the F&C cases to REACCs.	

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				Data Source/Agency	Verification Entity	Procedure	
		Woredas which report to BoFEDs that F&C cases are referred to REACCs for action is equal to or exceeds the target of 25%.				Overall: FEACC uses the verification template jointly agreed with MoFEC and the World Bank in 2017 and applies appropriate and independent methods of verifying achievement and submits the final verified document to MoFEC. The verified information is then submitted to the World Bank by MoFEC before each semiannual Government/World Bank review.	
11	Improved development information and data for service delivery	<p>May 2018: 2017 PHC field work is completed covering of 100% of enumeration areas and the census fieldwork completion report is produced and submitted to the Census Commission</p> <p>Novemebr 2018: Preliminary population numbers from the 2017 PHC are produced including a breakdown by the nine regions and two city administrations and preliminary</p>	No	CSA	EDRI	<p>May 2018: Upon submission of the census completion report, CSA will address an official letter to EDRI and MoFEC attesting the submission of the census completion report to the Census Commission.</p> <p>November 2018: Upon publication of the preliminary population report, CSA will address an official letter to EDRI and MoFEC attesting the publication of the preliminary population numbers on the CSA website.</p> <p>November 2019: Upon publication of the 2017 PHC microdata (Public Use File) (1%) on ENADA, CSA will address an official letter to EDRI and MoFEC attesting the publication of the microdata of the 2017 PHC on ENADA. EDRI will verify if the data is effectively available and ready for downloading.</p> <p>Overall: EDRI will use the verification template jointly agreed with MoFEC and</p>	A verification template to be used by all verifying agencies has been developed and agreed between MoFEC and the World Bank to strengthen the verification protocols used

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				Data Source/Agency	Verification Entity	Procedure	
		<p>population numbers available publically online</p> <p>November 2019: Anonymized microdata (Public Use File) of a representative sample of one percent of households enumerated during the 2017 PHC are uploaded on Ethiopian National Data Archive (ENADA) for public access</p>				the World Bank in 2017 and apply appropriate and independent methods of verifying achievement and submits the final verified document to MoFEC. The verified information is then submitted to the World Bank by MoFEC before each semiannual Government/World Bank review.	
12	Improve nutrition services	November 2018: MoH has developed TORs which describe the necessary structure and functioning of the nutrition coordination platforms and a nutrition coordination platform is in	<p>November 2018: No</p> <p>May 2020: No</p> <p>November 2020: Yes</p>	<p>November 2018: MoH administrative data</p> <p>May 2020: Woreda Health and Agriculture Offices administrative data</p>	CSA	<p>November 2018: Each Woreda Health Office in PSNP Woredas has sent a letter to their respective Regional Health Bureau (RHB) indicating that a nutrition coordination platform is in place consistent with the new ToR and in cooperation with all relevant sectors including PNSP. RHB reports to MoH (reporting is subject to change in nutrition coordination structure)</p> <p>May 2020: WoFEDs compile data on achievement and send to BoFEDs</p>	A verification template to be used by all verifying agencies has been developed and agreed between MoFEC and the



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		<p>place in each of the PSNP Woredas consistent with the new ToR</p> <p>May 2020: In 50% of PSNP Woredas in Highland areas at least 50% of the deployed frontline workers (HEWs, DAs, SWs) have received nutrition training (using PSNP BCC nutrition training material)</p> <p>November 2020: The share of mothers with children aged 0-23 months surveyed by the IFPRI Impact Assessment (PSNP households only) that have contact (as defined in the survey</p>		November 2020: IFPRI PSNP Impact Assessment (January 2020)		<p>November 2020: CSA verifies the achievement using the IFPRI PSNP Impact Assessment survey findings from 2020</p> <p>Overall: CSA uses the verification template jointly agreed with MoFEC and the World Bank in 2017 and applies appropriate and independent methods of verifying achievement. CSA submits a document to MoFEC, verifying data before each joint Government/World Bank semiannual review. The verified information is then submitted by MoFEC to the World Bank in a consolidated DLI verification report as part of each semiannual Government/World Bank review. CSA may hire independent consultants, with appropriate technical knowledge, to verify achievements</p>	World Bank to strengthen the verification protocols used

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				Data Source/Agency	Verification Entity	Procedure	
		questionnaire) with a HEW has gone up from 33% in 2016 to 58% in 2020					

### Annex 3: Integrated Risk Assessment

SORT			
Risk Category	Original Rating (H, S, M, L)	Revised Rating (H, S, M, L)	Rationale for Change
1. Political and Governance	S	H	The recent mass protests and instability in parts of the country have demonstrated the challenge to access and equity of basic services, particularly in conflict-affected and underserved communities. Without stability and calm everywhere in the country, the development outcomes for a national program such as this can be threatened.
2. Macroeconomic	S	No change (S)	—
3. Sector Strategies and Policies	L	No change (L)	—
4. Technical Design of Project or Program	L	M	The experience so far with the ESPES program shows that coordination between MoFEC and sectoral ministries need to be strengthened to fully implement the activities in all service delivery sectors.
5. Institutional Capacity for Implementation and Sustainability	M	No change (M)	—
6. Fiduciary	S	No change (S)	—
7. Environment and Social	M	S	Considering the instability in the country, the social risk is elevated to Substantial. The ESPES program AF will continue to build local capacities in environmental and social management to address these concerns.
8. Stakeholders	S	M	Risks are lower following the development of new and enhanced coordination mechanisms among development partners
9. Other	—	—	—
<b>OVERALL</b>	<b>S</b>	No change (S)	—

## Annex 4: Program Results Chain



Results area 1: Ensuring equitable access to basic services			
<b>Block grant program expenditure increase (DLI 1)</b> Behavioral change campaign to households and communities in bottom 20% Woredas for improving health, education, and nutrition outcomes (IPF) Improved intersectoral coordination mechanisms (PAP, DLI 12) Pilot demand side activity helping households access education services (for example, school feeding/child grants for schooling, conditional cash transfers) in bottom 20% of Woredas (PAP) School grants (GEQIP)	<b>More and better qualified teachers, HEWs and female DAs (DLI 2, 3 and 4)</b> More resources for Woreda-levels sectoral investments and operational costs Increased awareness in communities of health, education, nutrition and gender issues More schools with separate toilet for boys and girls (RI) Better availability of water supply at health facilities (RI) Improved nutrition training material and monitoring of nutrition services (PAP) <b>Improved nutrition services in PSNP Woredas (DLI 12)</b>	<b>Improved school enrollment in bottom 20% of Woredas (DLI 5)</b> Improved gender parity in enrollment (RI) Increased number of births attended by a skilled attendant (RI) <b>Increased Penta 3 vaccine coverage in bottom 20% of Woredas (DLI 5)</b> More women receiving antenatal care (RI) <b>Better access to nutrition services by mothers in PSNP Woredas (DLI 12)</b> Increased number of women accessing agriculture advisory services (RI)	<b>Increased completion rates for girls in bottom 20% of Woredas (DLI 5)</b> Reduced dropout rates (GEQIP) Reduced child and maternal mortality (SDG health project) <b>Reduced malnutrition in PSNP Woredas</b>
Results area 2: Enhancing CE and environmental and social management			
<b>Block grant program expenditure increase (DLI 1)</b> Launch of EIO branches in new regions (PAP) FTA manual prepared (PAP) New Government SA program starts (IPF) Coordination between basic sectors and oversight bodies for environmental and social management (PAP) Support environmental and social management guidelines development and train staff on guidelines (IPF)	More and better trained Woreda staff to undertake FTA, GRM functions and social and environmental management (RI) Government capacitated to contract agencies to undertake SA Guidelines in local language plus more and better human capacity on social and environmental management ESMS OM developed and customized to regions (PAP, RI)	<b>Pre-budget discussion in more Woredas (DLI 7)</b> <b>GRM made accessible in more regions and Woredas (DLI 7)</b> More Woredas and kebeles are covered by SA program (RI) <b>Government Framework for Citizen Engagement Developed (DLI 7)</b> Increased number of Woredas apply the ESMS OM (RI) <b>More Woredas undertake ESIA for Woreda projects (DLI 6)</b>	More informed, engaged, and empowered citizens who are involved in improving service delivery in their communities <b>Woreda-level JAPs for improving services are implemented (DLI 7)</b> Improved Government accountability of services Improved citizen voice in budget allocation for improved basic services <b>Improved environmental and social management at local level (DLI 6)</b>

Results area 3: Deepening fiduciary aspects of basic service delivery			
<p><b>Block grant program expenditure increase (DLI 1)</b></p> <p>Training of ethics officers and council members in Woredas (PAP)</p> <p>TA for setting up a F&amp;C prevention system (IPF)</p> <p>Customize procurement performance measurement guideline and start data collection in 4 regions (PAP)</p> <p>Training and TA on procurement audit, standard procurement procedures (IPF)</p> <p>Training to regional and Woreda administrators and council members on PFM, internal audit, and asset management (IPF)</p>	<p>More and better trained regional and Woreda level finance, audit, procurement and ethics officers (PAP, RI)</p> <p>Property management system<sup>10</sup> and cash control established system<sup>11</sup> (PAP)</p> <p>PFM reform program drafted and implemented in lowest performing Woredas (RI)</p> <p>Increased local capacity to provide effective oversight, transparency and accountability for budget and effectively respond to F&amp;C complaints</p> <p>Standardized and simplified procurement documents and procedures prepared and procurement KPI system streamlined</p>	<p>Stronger systems/ protocols for PFM at local levels including improved asset management</p> <p><b>Functional compliant handling and F&amp;C prevention system at local level with council members providing effective oversight function (DLI 10a and b)</b></p> <p>Reliable procurement audit coverage and remedial action taken thereby achieving procurement fiduciary assurance of public resources (RI)</p> <p><b>Basic sectors procurement performance monitored and reported based on KPIs (DLR 9)</b></p>	<p>Improved financial reporting</p> <p><b>Better Woreda management of cash (DLI 8)</b></p> <p>Effective cash and bank reconciliation (RI)</p> <p>Increase transparency and accountability in service delivery and resource utilization</p> <p><b>Function of regional procurement regulatory bodies improved (DLI 9)</b></p> <p>Basic service infrastructure and supply needs at decentralized level procured and delivered timely, effectively and transparently</p>
Results area 4: Ensuring quality development data			
<p>Forum for sharing experiences among regions on their IGFT allocation mechanisms (PAP)</p> <p>Training of sectoral MIS workers on data capturing, management, and analysis (IPF)</p> <p>System upgrading (that is, software, hardware) for sectoral MISs (IPF)</p> <p>Data collection and analysis of SARA health survey (IPF)</p> <p>Support to CSA for better data production and management (IPF)</p> <p>TA to VERA for strengthening vital statistics recording and reporting (IPF)</p>	<p>More analytical products featuring statistics on sectoral outcomes and challenges are prepared and disseminated (RI)</p> <p>Better quality and utilization of data produced by sectors and Woredas</p> <p>CSA regional branch offices better equipped to provide support and quality control to sectoral MIS workers</p> <p>Lagging Woredas identified</p>	<p><b>Updated information on population, socio-economic indicators, and infrastructure development at Woreda-level (DLI 11, RI)</b></p> <p>High-quality and higher-frequency data on access to basic services and social outcomes (education, health, poverty)</p> <p>Block grant formula better informed by current population size and service delivery needs</p>	<p>More effective sectoral management using upgraded sector MIS</p> <p>Block grant allocation system informed by new census data and poverty map created by combining new census data with new HIES data</p> <p>Financial transfers for service provision to better reflect regional needs</p> <p>Increased Government accountability for the provision of basic services to poor populations</p>

<sup>10</sup> Property management control system includes a) Develop inventory management application system (for both fixed asset and stock); b) Woredas maintained complete fixed asset registers reconciled with annual count and reported to BoFED; and c) Woredas count and reconcile stocks.

<sup>11</sup> The cash control system includes: Woredas conduct cash count and bank reconciliation on a monthly basis; b) Internal auditors check that counts and reconciliations are done monthly; c) Action is taken on Woreda accountants failing to count and reconcile cash and bank accounts; d) Woredas submit the cash count and bank reconciliation as part of the financial reports to BoFEDs.

## **Annex 5: Description of Investment Component**

1. The proposed AF includes an allocation of US\$100 million as a grant for an investment component which aims at complementing the PforR by providing TA and capacity building for service delivery system performance. The investment component is made up of three sub-components which are described below.

2. **Sub-component 1: System and Sector Strengthening (US\$26.5 million equivalent):** This activity will finance the following activities.

- In Sectors support is closely tied to the availability of quality data to monitor sectoral outputs and outcomes (including monitoring ESPES DLIs). The component will finance key activities such as (a) strengthening sectoral MIS systems for Education, Health, Agriculture (including PSNP) and WaSH; (b) providing finance and TA to the SARA health survey; and (c) costs related to undertaking behavioral change campaigns for improving human development outcomes in the bottom 20 percent of Woredas. In collaboration with the MIS units in the four ministries details have been discussed and a detailed proposal is available in a separate document.
- In procurement, it will (a) support TA and needs based training to the procurement audit at local levels in response to findings; (b) provide TA to FPPPA to support regional procurement system strengthening activities; (c) provide TA to refine and improve the KPI system; and (d) support implementation of the rollout of the simplified directives and preparation of standard procurement documents.
- In ethics and anticorruption this component will support: (a) capacity building to the REACCs in specific regions based on the outcome of the capacity gap assessment commissioned under ESPES; (b) design and implement the inter-institutional cooperation to combat F&C through national anticorruption strategy based on the recommendations of the capacity building needs assessment undertaken by FEACC in 2015; (c) undertake training needs assessment at federal, regional and Woreda level to review existing skills and training needs to the level of specialized skills required for individuals to perform their tasks effectively and implement outcomes; (d) enhance staff capacity at federal and regional level in asset disclosure verification techniques, management of conflicts of interest, statistical literacy, stakeholder engagement and consulting and counselling skills; (e) provide the necessary equipment and data encoding system to make the asset discloser recording and information accessible to the public; (f) strengthen capacity of parliamentarians; and (g) scale up ongoing training for strengthening the capacity of Woreda council finance and budget standing committee members.
- In environment and social management, it will (a) support the development of environmental and social assessment guidelines and standards; (b) train federal, regional and Woreda staff on the ESMS OM and environmental and social guidelines and standards; (c) customize the ESMS OM for regions (in collaboration with MoEFCC, regional environmental protection bureaus); and (d) provide capacity building support to Woreda environmental protection offices with at least one staff trained on the ESMS OM.
- In FM it will support the local level interventions that support or sustain or strengthen the PFM system. It will include TA through institutionalized trainings to sustainably build the capacity of accountants, finance officers, internal auditors at regions and Woredas on PFM so that internal control and other weaknesses are addressed; it will target leadership at local and

regional level to raise their awareness on PFM while they perform their leadership roles; it supports the audit committees at local level to ensure that audit issues are addressed; it supports system strengthening interventions including Woreda net connectivity, website improvements, payroll and cash management system developments, and so on; It will also provide TA to the repeat PFM Woreda Benchmarking exercise to be conducted.

3. For the sectoral support the major activities/items to be financed include: training and workshops, operational travels, procurement of IT equipment, development of training materials, data collection and analysis, consultancy and surveys. The implementing entities involve Ministries of Health, Education, and Water Agriculture and National Resources (including PSNP). IDA funds will be transferred to these entities through MoFEC.

4. For system strengthening the component will support TA, training of staff, development of guidelines and manuals, procurement of office equipment, consultancy services, operational costs and travel, and so on. The implementing entities include MoFEC, BOFEDs, FPPAA, FEACC, OFAG, and MoEFCC. IDA funds will be transferred to these entities through MoFEC.

5. **Sub-component 2: Citizens Engagement (CE) (US\$30 million equivalent):** This will finance three key areas of CE, namely (a) FTA (US\$5 million), (b) GRMs (US\$5 million), and (c) SA (US\$20 million). The activities and arrangements for implementation are as follows:

- **A: In FTA and GRM** (US\$10 million) the activities include (a) budget literacy training for council members; (b) mass media campaigns using innovative approaches to talk about budgets, expenditures, and basic service delivery standards; (c) support for audit and procurement information disclosure using the respective templates in all Woredas; (d) support for institutionalized FTA training by refining modules, and so on; (e) undertaking an assessment of the effectiveness of FTA; (f) strengthening FTA/GRM/SA linkages with emphasis on joint M&E (including annual FTA review); (g) capacity building support to the EIO head office and its branches; (h) support to grievance management using an IT system; and (i) capacity building to regional GRM offices to enable them to support Woredas. The major activities/items to be financed include: trainings and workshops, operational costs and travel, procurement of IT equipment, guidelines and brochures development, airtime for media dissemination, consultancy and field surveys.
- **B: Social Accountability** (US\$20 million). The project would expand utilization of SA tools in Woredas and kebeles (including community empowerment and mobilization; community needs identification and prioritization; interface meetings; and development and monitoring of JAPs). In addition, it would strengthen capacity of the SA system in Ethiopia (including building capacity for supply and side actors related to service delivery; building links between FTA, GRM, and mainstreaming SA in government and non-government institutions) and support program management and M&E, and knowledge management of SA. Overall, the technical design of the on-the-ground implementation of SA in ESPES will be closely aligned with the new ESAP3 under development.

6. ESPES AF will focus on deepening and expanding SA while taking additional and more lasting steps towards its institutionalization and sustainability. In line with the Ethiopia CPF target to operationalize SA in 500 woredas, the ESPES AF will scale up and operationalize SA in a share of these woredas through its IPF component.

7. The US\$20 million allocated for ESPES financing for SA will be allocated across the three components of the Ethiopia Social Accountability Program Phase 3 (ESAP3) which is currently in its final design stages. The full details of the ESAP3 program details are included in a separate design document.

**Component 1 of ESAP3: Expand the Uptake of Social Accountability Tools (IDA allocation around US\$16 million equivalent)**

8. **ESPES AF will support the expansion of the uptake of SA tools in new and existing woredas.** The main activities would include: community empowerment and mobilization, community need identification and prioritization processes, interface meetings, JAP development for service improvement, JAP implementation and monitoring in addition to SA communication and knowledge management. SA tools such as Community Score Cards (CSC), Citizen Report Cards (CRCs), Participatory Planning and Budgeting (PPB), Gender Responsive Budgeting (GRB), and Public Expenditure Tracking Surveys (PETS).

9. **The contribution by IDA will support the Government's target to scale up to 500 Woredas.** ESAP3's design document estimates that it will cost around US\$41 million to scale up from the existing 223 to 500 woredas. Following ESAP II's implementation arrangements, these activities will be implemented by one or two Management Agencies.

10. **To share in the scale up around US\$16 million of IDA funds will be used to finance an MA**<sup>12</sup> through a competitive international bidding process. This MA may or may not be the same as the MA which will be recruited using the Multi Donor Trust Funds (MDTF). In case two separate MAs will be recruited care will be taken not to create two parallel SA programs. Figure 5.1 outlines the 'two-MA system' implementation structure. The MA/MAs will be guided by the ESAP Steering Committee and Technical Committee at federal level. While the local implementation is streamlined, the financing for SA in Ethiopia comes from two different funding flows—IDA financing comes through the ESPES program and other development partner support comes through a World Bank-executed MDTF. The IDA funded MA will have specific technical and FM capacity to manage a large national SA program involving several CSOs. The MA will explore the use of 'field offices' or 'local area hubs' as part of its implementation arrangements.<sup>13</sup>

11. **A potential 'two-MA system' requires that there be a fair division of labor and clear planning and task setting to avoid any overlaps and duplication.** The division of labor may be geographic or sequential where one MA is recruited before the other one. A geographic split would mean that each MA may focus on a separate geographical area of the country, to be divided in a way that is logical.<sup>14</sup> Given the size of the two projected funding streams, one of the two MAs may have a larger budget and would therefore be assigned a larger implementation area. The exact geographic division of the two implementation areas will take into account population density<sup>15</sup>, relative amount of SA experience per region, and any other factors that make SA implementation more challenging (and potentially costlier). For example, working in very remote locations or with mobile pastoral communities.<sup>16</sup> Division of labor guidelines established at the time the MAs are recruited will ensure that there is a harmonised approach in place regarding planning

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<sup>12</sup> While it is required that this be led by an international firm or NGO, it may be in partnership with an appropriate national firm or NGO.

<sup>13</sup> To provide support to CSOs, M&E and to undertake regional systems strengthening, and so on.

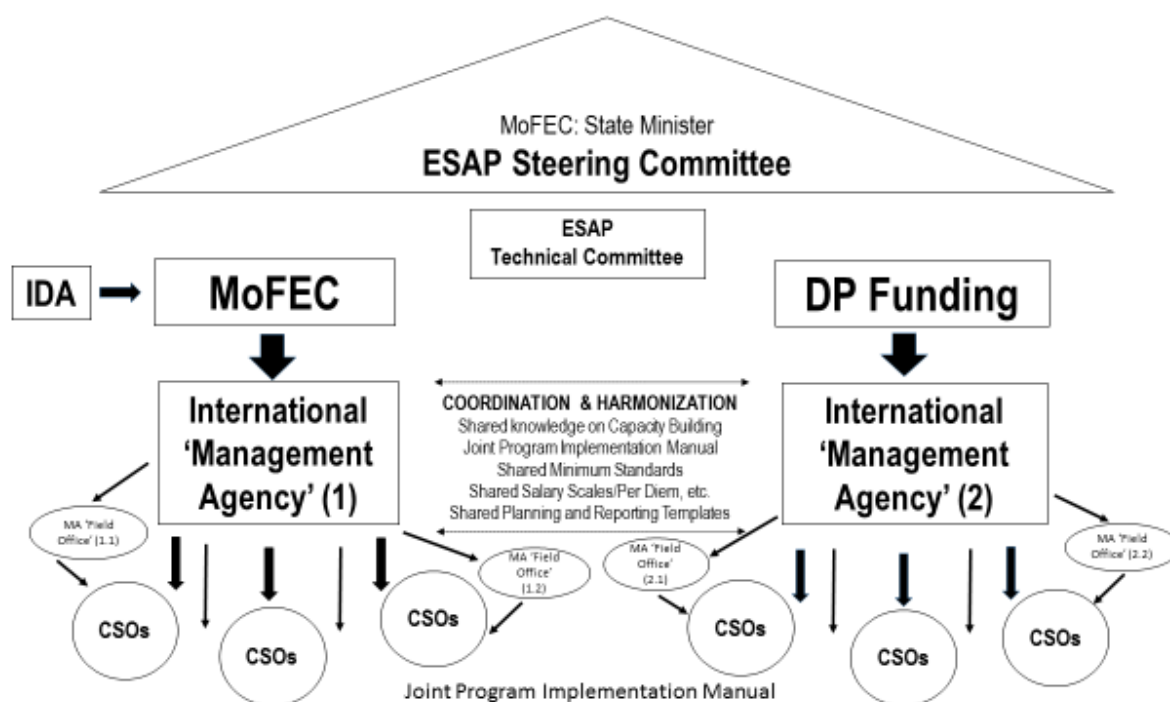
<sup>14</sup> The areas should not be scattered.

<sup>15</sup> Higher population density means potentially more SA interventions.



and reporting, the use of social media, learning events and activities, publications, and printing of documentation, with appropriate cost sharing arrangements.

**Figure 5.1. ESAP3 Implementation Structure in case of two MAs**



12. **A harmonized approach to IDA and MDTF-funded International MAs implementing ESAP3 will ensure that strong synergies are built between both MAs to adequately address supply and demand driven aspects of SA.** The two MAs will share the same reporting structures, minimum standards and follow a joint Social Accountability Program Implementation Manual (SAPIM). To ensure the two MAs share information on day-to-day issues that arise, it is suggested that the two MAs set up office space in close proximity to each other. To ensure the regular sharing of learning by MA staff but also by the CSOs they work with, it is suggested that the MAs will be required to share knowledge on capacity building, hold joint Learning Benchmark meetings and appoint a focal person to conduct weekly meetings. Short term consultants who provide TA in specific areas, and so on could be shared between the MAs. The MAs will be held accountable for strong coordination by the ESAP3 Steering Committee.

13. **The MA/MAs will select a mix of experienced and new CSOs to receive grants as Social Accountability Implementing Partners (SAIPs).** SAIPs will create awareness of SA and help bring together citizens and service providers; act as neutral and independent interlocutors to allow for objective assessments of basic service standards; encourage the participation of vulnerable groups in dialogue with woreda officials and basic service providers regarding basic service delivery; build capacity of citizens to participate in SA by acquiring experience in using SA tools; and support the resource mobilization efforts of the government and citizens to implement JAPs.

**Component 2 of ESAP3: Social Accountability Capacity Building and Systems Strengthening (IDA allocation around US\$2 million equivalent)**

14. **Capacity building and systems strengthening activities are key to the institutionalization and sustainability of SA for enhanced service delivery in Ethiopia.** This subcomponent will support capacity

building for both supply and demand side actors<sup>17</sup> to embed SA within basic service delivery institutions and systems of Government.<sup>18</sup> IDA funds will flow to (a) MoFEC to implement activities directly that focus on supply side actors and; (b) through MoFEC to the MA which will implement activities directly that focus more on demand side actors (but also include supply side as well). Institutional and systems strengthening focuses on creating an enabling environment at the institutional level. It will include the engagement of a wide range of stakeholders - expanding horizontally and vertically. It will include learning from best practice, developing procedures for engagement, roles and responsibilities, embedding processes into institutions and scaling-up SA practices, and so on. It will include increasing alignment with mainstream development planning, budgeting and review processes.

**15. The work program under this sub-component will be developed in detail following the preparation of a *Capacity Development and Systems Strengthening Action Plan*.** This Action Plan will be based on consultation and needs assessment and will clearly define how the *SA Team* in MoFEC and MAs will share and coordinate the implementation of capacity building and systems strengthening activities.

**16. IDA funds will strengthen MoFEC capacity to develop and promote systems and institutionalization of SA.** MoFEC capacity will be strengthened with the creation of a *SA Team* which will include SA technical experts with capacity building expertise and other necessary technical knowledge (see full description of *SA Team* under Subcomponent 2c(C), below). The *SA Team* will focus on capacity development and systems strengthening support to supply side actors. This will include activities such as awareness raising and sensitization, targeted training, workshops, on-the-job mentoring and coaching, exchange visits, and Technical Assistant (TA), and so on. The *SA Team* will be open to ongoing demands for training and capacity building and will be flexible to tailor capacity development activities and respond to demand over time. The *SA Team* may undertake consultations with, for example, basic service delivery sectors, to determine demand and explore how to support capacity building in specific ministries. At minimum, it is expected that this will include awareness raising and sensitization within MoFEC itself (including national, regional and woreda levels); the five basic service delivery sector ministries (including health, education, water and sanitation, agriculture and rural roads), MoLSA, Ministry of Federal Affairs (MoFA) and the Ministry of Civil Service and Human Resource Development (MoCS&HRD). The *SA Team* will actively engage with these stakeholders and build awareness and dialogue on SA, and strengthen how ministries respond to citizen's feedback.

**17. *SA Team* engagement with MoCS&HRD<sup>19</sup> in particular will be critical for strengthening systems to accommodate SA.** SA implementation involves the community and service users on the one hand, and service providers and woreda staff, *the civil servants*, on the other. Familiarizing civil servants at all levels with SA, in terms of its utility and relevance to civil servants' jobs, is important for the institutionalization of SA. The *SA Team* in MoFEC will determine the best approach to supporting MoCS&HRD with IDA resources. This may include, for example, training and/or the placement of TA in MoCS&HRD. The *SA Team* will also support potential institutions that may be identified to lead SA in the long-term by helping them to develop a roadmap for any transition, if required.<sup>20</sup>

**18. The *SA Team* will play a key role in ensuring that results from the implementation of SA are shared with policy makers and over time become part of the ongoing monitoring and planning system**

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<sup>17</sup> Supply side actors include the GoE, Councils, and so on. Demand side actors include SAIPs, CBOs, citizens, and so on. GoE is well positioned to focus on supply side actors.

<sup>18</sup> It is expected that this will be a long term process.

<sup>19</sup> There may be other ministries that could be considered a longer term home for ESAP.

<sup>20</sup> To be informed by the development of the Citizen Engagement Framework.

**of Government of Ethiopia.** For example, the *SA Team* will explore innovative ways to ensure that SA results are communicated and shared with federal level policy making bodies. At the woreda level, priorities reflected in JAPs should inform local level planning while at federal level, evidence from the SA process should inform wider GoE policy and strategy formation processes. The *SA Team* will, for example, coordinate monitoring visits to ESAP3 field projects for government stakeholders and organize learning and experience sharing platforms to provide policy makers research findings and insights from the ground on ESAP3 implementation.<sup>21</sup>

19. **The *SA Team* will also play a key role in strengthening government accountability oversight structures, including kebele assemblies, woreda councils and regional councils in particular, to embed and sustain SA initiatives in their mandates roles and functions.** This will involve, for example, coordinating and promoting the participation of sectors in FTA-GRM-SA Linkage Committees. The *SA Team* is also well positioned within MoFEC to focus on building linkages between with FTA, GRM, PFM, budgetary planning cycles and overall decentralized governance and management systems. The *SA Team* will also play a key role in ensuring that non-ESAP sector issues emerging during the SA process are referred to other accountability institutions and processes (that is, GRM, EIO, Councils).

20. **IDA funds flowing to the MA will include a focus on building the capacity of demand side actors,** including strengthening local community structures and service user groups, including SACs, PTSAs, CBOs, MBOs to implement, scale up and sustain SA initiatives. Activities will include, for example ensuring that user community structures suitable for implementation are identified locally are brought into the SA awareness creation and training activities and incorporated into SA activities. It will also include establishment and/or revitalization of community SA structures that are operationalized with a range of capacity support and provide training to local community SA structures on SA tools and approaches to engage service providers.

21. **The *SA Team* in MoFEC will also work with the MA<sup>22</sup> leading the implementation of SA in the Woreads to expand ESAP structures to be more inclusive by including sectors and strengthening participation of MoCS&HRD and any other relevant ministries.** Participation in the SA process, including identification and prioritization processes, interface meetings, JAP development, and so on, is a significant capacity building and action learning exercise on its own. The *SA Team* will promote the participation of local government, councillor and service provider institutions in capacity building activities led by the MA to be able to fully engage in the activities under this component (that is, planning, budgeting, implementation and monitoring of basic public services using SA tools and approaches).

### **Component 3 of ESAP3: Social Accountability Project Management, Coordination and M&E (IDA allocation around US\$2 million equivalent)**

22. **Finally, some funds will be allotted to manage and monitor the overarching structures that need to be in place to achieve the expansion and the uptake of SA Tools as well as the Capacity Building and Systems Strengthening.** It will include the coordination of daily project activities, M&E, grant management, learning and knowledge management.

23. **The project will support the establishment of a *SA Team* in MoFEC, a core unit under CoPCD in MoFEC.** Overall, the *SA Team* will need to have sufficient capacity in place to manage a program of capacity building and systems strengthening for SA and manage the day-to-day activities of the MA. The necessary competency and staffing needs will be assessed but it is expected that the *SA Team* will have to be reinforced with skills such as from a social scientist with knowledge of SA and CE, an M&E and

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<sup>21</sup> MoFEC will coordinate with the MAs to deliver these activities.

<sup>22</sup> The IDA-funded MA will coordinate with the MDTF-funded MA to carry out activities, jointly.

knowledge management expert, as well as in term of fiduciary expertise. An overall Team Leader/Coordinator will be appointed. The *SA Team* may bring in SA expertise on short term contracts, as required. It will be particularly important for the *SA Team* to recruit a TA early on, which could ensure that the recruitment process for the IDA-funded MA runs in parallel to the recruitment process for the DP funded MA. IDA funds will also be used to ensure that the necessary office and logistics resources are in place for the *SA Team* to manage the MA. For example, office equipment, office space and one vehicle. The *SA Team* will be responsible for managing all SA activities financed under the ESPES AF.

24. **The *SA Team* would take on the role of fund manager for the IDA-funded MA.** This will require ToR preparation (in parallel with the MDTF-funded MA process) and recruitment and contracting of an MA. The *SA Team* will then oversee the contract with the MA, including putting a number of standard procedures in place to ensure the necessary financial and technical reporting functions are in place. To the extent possible, these procedures should be harmonized with the procedures that will be put in place for the MDTF-funded MA. The *SA Team* will also undertake the necessary monitoring of MA activities, including regular field visits to SA woredas.

25. **The *SA Team* would also take on the role of coordinator and secretary for the ESAP3 Steering Committee and Technical Committee.** The *SA Team* will support and encourage expanded participation in Technical Committee and Steering Committee meetings – key entry points to mainstreaming SA into the overall GoE systems. Activities will include awareness and sensitization, information sharing and coordination. The *SA Team* will also encourage close coordination and harmonization between the IDA-funded MA and MDTF-funded MA.

26. **IDA funds will also flow to the MA to coordinate daily project activities, selection and capacity development of SAIPs and grant management.** The MA will be expected to recruit and manage SAIPs to implement Social Accountability Tools in Woredas and kebeles. This will include oversight to contracts, including ensuring number of standard procedures in place to ensure the necessary financial and technical reporting functions are in place. To the extent possible, these procedures should be harmonized with the procedures that will be put in place for the MDTF-funded MA. The MA will also undertake the necessary monitoring of SAIPs activities, including regular field visits to SAIPs and SA woredas. As appropriate, it will also require contracting of external assessments and audits. Innovation will be encouraged in relation to knowledge management and communication functions (that is, including use of websites and social media, learning events and activities, publications, and printing of documentation). Action research on SA policy and practice in ways that can directly feed into the systems strengthening and policy development agenda will also be important.

27. **Sub-component 3: Capacity building and M&E (US\$43.5 million equivalent):** The objective of the support to statistics is to strengthen the capacity of the CSA and VERA to produce and disseminate timely and reliable statistics and to monitor progress under the GTP II. The support will focus on 1) data production and dissemination, and 2) organizational and statistical infrastructure and capacity building, and improving the quality of vital statistics:

- **A: Data Production and Dissemination (US\$14.6 million):** Under this component, the project will cover: (a) welfare monitoring system; (b) economic and price statistics; and (c) data access, dissemination and use. The main objective of the welfare monitoring system is the increase the frequency of the main poverty survey from every five years to every three years, to enable a closer monitoring of poverty and social indicators in a shock-prone country. Two poverty surveys will be covered by the project, the first in 2018/19 and the second in 2021/22. This will provide an endline for GTP II and a mid-term evaluation of GTP III. The main objective of the economic and price statistics area is to improve the source data for National Accounts by better covering the services sector of the economy and designing a

construction price index. The project will also support the preparations for the agricultural census. The data access, dissemination and use area will support the CSA to revise the dissemination strategies to facilitate public access to survey and census microdata and will support initiatives to increase the use of statistical data by the public.

- **B: Organizational and Statistical Infrastructure and Capacity Building (US\$5.4 million):** NSDS-2 recognizes the importance of different types of infrastructure in a National Statistical System for effective data generation and use. Under this component, the project will (a) support the improvement of the statistical infrastructure; (b) support the improvement of the organizational infrastructure through a review of the human resources structure and strategy and the design and implementation of a long-term capacity-building plan; and (c) support the acquisition of physical infrastructure, mainly Information and Communications Technology equipment to facilitate the transition from paper-based to electronic surveys and a number of vehicles to facilitate data collection operations at the branch office level.
- **C: Support to VERA to improve vital statistics (US\$3.5 million)** including upgrading of systems, manuals, and interface with CSA, training of registrars, registration materials, and capacity in data management and analysis.
- **D: Program management and verification (US\$20 million):** This will support program management and operational costs including (a) incremental staff costs; (b) operational costs including audits and program M&E; and (c) costs incurred by the DLI verification agencies. The major activities/items to be financed include: staff costs, consultancy and surveys, field mission costs, fees to verifying agencies, workshops and workshop materials, audit costs.

28. The implementing entities for this sub-component 3A-C are CSA and VERA. The implementing entities for sub-component 3D include MoFEC, BoFEDs, CSA, FPPPA, OFAG, EIO, FEACC, and EDRI.

## **Annex 6: Implementation Arrangements Investment Component**

### **Institutional Arrangements**

1. The investment component of the proposed AF will rely on the same implementation arrangements as developed for the PBS. Similar to the PforR component, the MoFEC will be the implementing agency for the proposed investment component of the ESPES AF. Within MoFEC, the COPCD is responsible for coordinating daily activities across the basic service ministries, Government bodies and sub-national Government entities. The MoFEC will also be responsible for FM of the program. The MoFEC will in consultation with stake holders will prepare and submit to the World Bank annual work plans and budget. Other federal level entities that implement the investment component include CSA, FPPPA, FEACC, OFAG, EIO, Sectors like MoH, MoANR, MoE, MoWIE, MoEFCC, and VERA.
2. At the regional Government level, BoFEDs will continue to have similar responsibilities at the regional level as MoFEC has at the federal level. In late 2011, all BoFEDs created new positions for Channel One Coordinators at the regional level. This structure will continue under ESPES and will help to strengthen the overall system's capacity for implementation and follow-up of the investment component. BoFED responsibilities include: (a) receiving, consolidating, and transferring to MoFEC financial and expenditure reports from the regional level implementing entities; (b) receiving Woreda level plans for the basic service sectors and assisting Woredas in reconciling their plans within the agreed budget; (c) allocating program budgets to regional level implementing entities in accordance with their budget and allocating subsidy to Woredas in line with the agreed fiscal transfer formulas; (d) reviewing and consolidating results reports from Woreda Governments; (e) following up on audit findings and informing MoFEC for the consolidation of action plans; and (f) collaborating with Regional Bureaus of Civil Service to implement, manage, and monitor FTA activities at sub-national levels.
3. At local level, 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 BoFEDs; (d) reporting on a monthly basis on the actual use of block grants including basic services sub-program resources at local level and overall performance in relation to service delivery targets; (e) enhancing financial transparency and collaborating in SA initiatives at local levels; and (f) managing and coordinating the day-to-day implementation of FTA-related activities.
4. Councils at regional, Woreda and kebele levels: (a) provide general oversight of those subnational Government institutions involved in the program's implementation; (b) review and approve annual development plans and budgets; and (c) facilitate information sharing and harness the involvement of citizens in the planning, budgeting, and management of delivering basic services.
5. In addition to the MoFEC and its decentralized branches who has the overall responsibility to implement the program and coordinate with all other entities, a number of other technical oversight bodies will be involved to implement the investment component activities. This includes sectoral line ministries such as the Education, Health, and Natural Resources, and Environment. To deliver the results for the population census CSA is the technical entity who will carry out the activities. Details for which technical oversight body is in charge of which activity is outlines in Annex 4 which describes the various activities to be financed.

## Financial Management and Disbursement Arrangements

6. **Country context.** The 2014 PEFA assessment has been completed for the federal Government as well as for Tigray, Amhara, Southern Nations, Nationalities, and Peoples' Region, Oromia, and Somali Regions and Addis Ababa city administration. Good improvements were noted in most of the federal Government ratings although the rating differs among regions. Generally, the budget credibility of the country remained well supported with the continuing robust budget execution and internal control systems. Since the 2010 assessment, budget transparency and comprehensiveness and arrears management has also strengthened. The tax audit function is gradually increasing focus on risk assessment but capacity constraints still remain. Budget execution systems appear to continue to work well. Robust internal control systems remain. Procurement systems are strengthened since the 2010 assessment although the publication of procurement information has not progressed as much. Furthermore, the effectiveness of scrutiny has strengthened to an extent given that the Macro Economic and Fiscal Framework is being reviewed by the relevant legislation unit and a strengthened procedure for review of the draft budget is in place. The legislative scrutiny of audit reports improved the performance in the depth of hearing recommendations and monitoring their implementation.

7. **Although improvements are noted, the strengthening of the internal audit function has proceeded at a slower pace than expected.** The assessment revealed that high staff turnover and capacity constraints remain in procurement and internal audit capacity. In addition, timeliness of the preparation of statements and coverage has progressed although regional reports are submitted to the federal level with delay. The assessment also indicated that external audit has progressed overall but capacity constraints still remain.

### *Budgeting*

8. **Budget preparation.** The project will follow the Government's budget system<sup>23</sup>, recorded in the Government's budget manual. The budget for this investment component will be determined each year based on the annual work and budget to be prepared by all implementers. MoFEC/COPCD will consolidate inputs from federal and regional level implementing entities and prepare the annual work plan and budget of this investment component which will be submitted to IDA for review and approval. The budget preparation, approval and dissemination process will be discussed in detail in Project Implementation Manual (PIM). This manual covering the the IPF could build on the manual used for the PBS program but revised and updated. In addition, a detail program document will be prepared for Social Accountability (SA) component streamlined with the implementation for the ESAP2 Successor Program. The PIM and SA program document will be submitted with in three months of project effectiveness and is considered to be disbursement condition. The budget for program (investment component) will be proclaimed as per standard Government regulations.

9. **Budget control.** Detailed project work plans, projected costs, and procurement plans were finalized and agreed upon during project appraisal and negotiations. These have formed the basis for the project costs noted in the procurement plan (also reflected as the program budget in financial reports). Activities and costs noted in the work plans and budgets would be "eligible expenditures" under the project.

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<sup>23</sup> The Ethiopian budget system is complex, reflecting the fiscal decentralization structure. Budget is processed at federal, regional, zonal (in some regions), woreda and municipality levels. The budget preparation procedure and steps are recorded in the Government's budget manual. The budgets are reviewed at first by MOFEC then by the Council of Ministers. The final recommended draft budget is sent to parliament around early June and expected to be cleared at the latest by the end of the fiscal year

10. **A lesson from the existing project is that it is challenging to provide adequate explanation on budget execution/variances between approved budget and actual expenditures.** The approved budget should be disseminated to all project implementers in a timely manner. There is a need to compare actual expenditures with that of the approved budget to monitor progress and identify impediments. Significant variations should be explained and the analysis used as a management tool to make important decisions. To facilitate this, the Interim Financial Report (IFR) of the project will have a format for the analysis.

### *Accounting*

11. The Government's accounting policies and procedures<sup>24</sup> will be largely used for the accounting of the project. As noted above, the IPF component will have its own FM manual as part of PIM, which will be prepared under the scope of the country's accounting system with some modifications to specifically align it to the project's needs. Separate program document will be prepared for the SA part which will clarify the accounting arrangements as well. The manual should incorporate mechanisms for recording transactions, including the allocation of expenditures in accordance with the respective project components, disbursement categories, and sources of funds. The Chart of Accounts for the project should adequately and efficiently account for transactions and to report on project activities. Monthly, quarterly, and annual reports will be produced directly from the FM system and thus a well-developed Chart of Accounts is crucial.

12. **Accounting system.** MoFEC is currently using the Integrated Financial Management Information System (IFMIS) to record and produce its financial reports. Given that the IFMIS is not yet operational at a regional level, the project will use IBEX on a standalone basis in places where there is no IFMIS as the project accounting system as is the case for big programs such as PSNP and General Education Quality Improvement Project (GEQIP) managed by COPCD.

13. **Accounting centers.** Accounting centers for project funds include: MoFEC; BoFEC and federal level implementing entities like sector ministries, CSA, FPPPA, FEACC, EIO, VERA. It should be noted that all the major procurements for the implementing entities will be handled by COPCD whereas fund will be released to the implementing entities for costs such as training & workshops, operating costs and recruitment of individual consultants. All these institutions will maintain accounting books and records and prepare financial reports in line with the system outlined in the FM manual to be prepared as part of the PIM. For the SA implemented part. It is important to ensure that there is no double dipping on project activities with PBS III Sub Program B and PFM project-clear. Risk mitigation measures envisaged in this regard include preparing annual work plan and budget with separate activities; timing disaggregation; maintaining separate accounting records and documentation which are subject for review of auditors and supervision missions; and so on.

14. **Staffing.** COPCD is currently managing five major World Bank-financed programs. All these programs are well supported by FM specialists and experts both at the federal and regional levels. The unit has a strong financial team presence across federal and regional levels and coordinates well with sector ministries. Within COPCD, the existing FM operation for ESPES is managed by the PBS team supported by the finance and procurement services directorate of the Ministry. However, with the added load of the investment component of the AF, the need to increase the existing level of staffing at MoFEC so that the project's FM needs could be well addressed. Therefore, after consultations with MoFEC, it was agreed with MoFEC that two accountants will be recruited within three months of project effectiveness. Roles and

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<sup>24</sup> The Ethiopian Government follows a double entry bookkeeping system and modified cash basis of accounting. This is documented in the Government's Accounting Manual. This has been implemented at the federal level and in many regions. The Government's Accounting Manual provides detailed information on the major accounting procedures.



responsibilities will be clarified. At the regional level, given that the activities to be managed by the regions, each regional BoFED will assign one staff to oversee the project's FM at the regional level. However, this will be decided later on.

15. **Supervision and monitoring at COPCD.** The existing ESPES/PBS team of COPCD which is already functioning will continue to monitor and follow up the investment component as well. In addition, the World Bank team will review progress on a semi-annual basis as part of the JRIS.

16. **Capacity building/training.** As is the case with decentralized operations, training and building the capacity of staff is essential for the success of the project implementation. The training responsibility for the project will be borne by the MoFEC, COPCD, and the World Bank. The World Bank will train project staff about World Bank FM policies and procedures and will involve the project during the different trainings that it conducts both at the federal and regional levels. COPCD will hold the responsibility to continuously train its accounting staff. Areas for which training is required include the FM Manual, IBEX, World Bank policies and procedures, preparation of IFRs, among others. Related costs will be budgeted in the annual work plan and budget.

17. **Retaining documents.** Each implementing agency is responsible for maintaining the project's records and documents for all financial transactions occurred in their offices. These documents and records will be made available to the World Bank's regular supervision missions and to the external auditors.

#### *Internal Control*

18. Internal control comprises the whole system of control, financial or otherwise, established by management to: (a) carry out the project activities in an orderly and efficient manner; (b) ensure adherence to policies and procedures; (c) ensure maintenance of complete and accurate accounting records; and (d) safeguard the assets of the project. Regular Government systems and procedures will be followed, including those relating to authorization, recording and custody controls. The project's internal controls, including processes for recording and safeguarding of assets, will also be documented in the FM Manual part of the PIM which is to be prepared.

19. **Lessons of the current project indicate that reasonable internal controls are working but there are still consistent weaknesses in the areas of property management, cash and bank management, adequately supporting expenditures, internal audit oversight, and long outstanding balances.** The continuous audit reports also show evidence of this. This issue will be followed up to ensure that it is addressed. FM Manual part of the PIM will also lay out clear procedures to address these issues.

20. **Internal audit.** An internal audit training module was issued by MoFEC in 2005 based on the internal audit manual issued in 2004. In addition, MOFEC issued an Internal Audit Reporting Procedure manual in Amharic in January 2010 and a performance audit manual, standards and implementation guide in July 2013.<sup>25</sup> Performance audit has already commenced after the necessary training has been provided. Although the manuals are prepared and trainings provided, the internal audit units of various budget institutions are understaffed and hence not able to conduct comprehensive internal audit review particularly for donor funded operations.

21. **MoFEC has an internal audit directorate which is currently staffed with internal auditors that are qualified.** Representatives from the unit have attended the World Bank organized training on Risk Based Auditing. The project is expected to strengthen the capacity of the internal audit function and hence the coverage of the unit can increase by including reviews of donor financed operations. The directorate

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<sup>25</sup> These manuals are available on the website of MoFEC.

should include the project in its annual work plan and accordingly review the project accounts based on the risks assessed by the directorate. Any report issued on the project accounts should be accessible to the World Bank for supervision and follow up of action taken.

22. **Internal audit at COPCD.** MoFEC has deployed two internal auditors for COPCD whose main responsibility is to assess the external audit reports of programs, prepare valid action plans to rectify irregularities, verify that the actions taken by the regions and Woredas is appropriate and communicate to the COPCD head and DPs on the action taken. The capacity of the internal auditors is being strengthened through the resources of the various programs. There is also a plan to cascade down this arrangement to regional BoFED/COPCD levels. Accordingly, this function will also assist this project in ensuring that audit report findings are addressed in a timely manner.

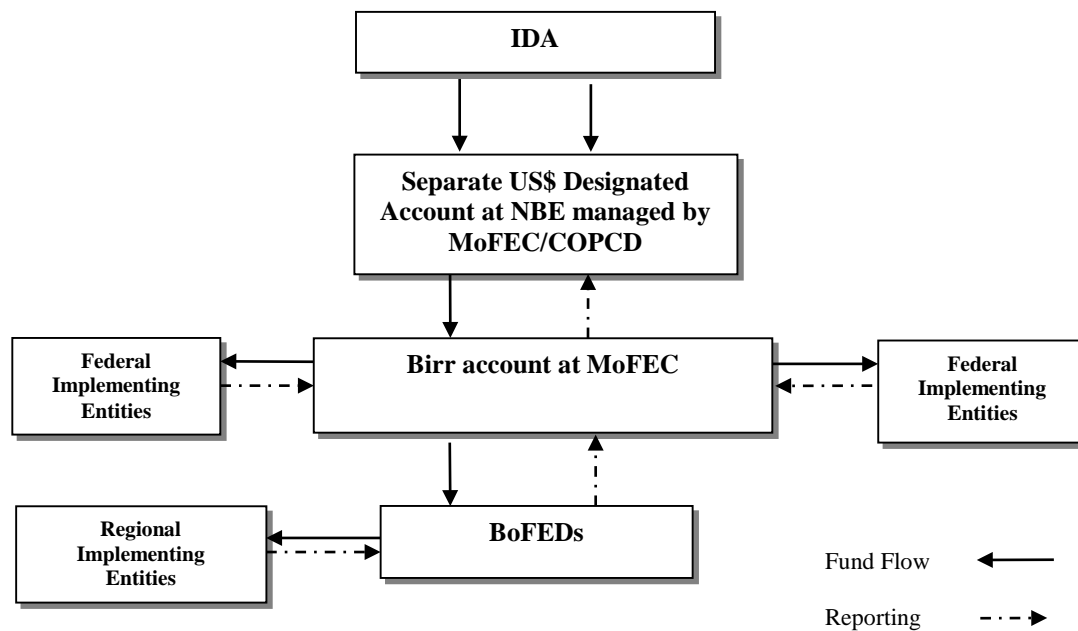
#### *Fund Flow and Disbursement*

23. **Designated Account and Disbursement Method.** Funds flow into the project and within the project among various institutions is depicted in the figure below. IDA funds will be deposited into a separate/segregated Designated Account to be opened at the National Bank of Ethiopia (NBE) to be managed by COPCD. The authorized ceiling of the Designated Account would be two quarters forecasted expenditure based on the approved annual work plan and budget. Funds from the Designated Accounts will be further transferred into Birr pooled account to be held by MoFEC. From the pooled local-currency account, MoFEC will transfer funds to separate local-currency accounts to be opened by federal level implementing entities (into which agreement was reached to transfer money), and BoFED. One cash forecast for the program will be used which will be consolidated at MoFEC based on the annual work plan prepared together with all implementers.

24. **Each implementing entity at federal and regional level will open separate bank accounts for the program to receive the resources for the program.** These entities receiving resources are required to report on the use of resources. Any implementing entity that does not report in a timely manner on how the advance is expended will not receive additional funds until the initial advance is reasonably settled. Some Federal level implementing entities may receive resources for activities other than procurement related since the procurement process will be managed by COPCD. The FM Manual part of the PIM will indicate in detail the fund flow to each tier of implementing entity.

25. **Before transferring any money to the lower level, MoFEC will ensure that separate bank accounts have been opened for the project and there are adequate FM systems including FM staff capable of producing the required financial deliverables.** The fund flow arrangement for this investment component is summarized in Figure 6.1.

**Figure 6.1. Flow of funds ESPES AF**



26. **Disbursement mechanism and Methods.** The project may follow one or a combination of the following disbursement methods: Designated Account, Direct Payment, Reimbursement and Special Commitment. The program will continue to use report based disbursement method with two quarters forecast.

27. **There will be two categories of allocations in the Financing agreement.** However, since the costing is done in project components and Implementing entities, the Annual Work Plan and Budget and IFRs will be prepared in components, categories and implementing entities. This will facilitate the monitoring of the project performance indicators as well as financial aspects.

#### *Reporting*

28. **Reporting requirements.** The project will prepare Consolidated Interim un-audited Financial Reports. These will be submitted to the World Bank within 60 days of the end of the quarter. The format and the content, consistent with the World Bank's standards, will be agreed with MoFEC during project negotiation. MoFEC, in the quarterly IFR, will ensure that advances received as well as documentation of expenditure is properly identified and reflected. At a minimum, the report will include: A statement of sources and uses of funds and opening and closing balances for the quarter and cumulative, a statement of uses of fund that shows actual expenditures, appropriately classified by main project activities (categories, components, and sub-components), actual versus budget comparisons for the quarter and cumulative will also be included, a statement on movements (inflows and outflows) of the project Designated Account, including opening and closing balances, expenditure forecast for the next two quarters together with the cash requirement and Notes and explanations, other supporting schedules and documents.

29. **Reporting timetables and quality.** Financial reports will be designed to provide high-quality, timely information on project performance to project management, IDA and other relevant stakeholders. The report should be derived from accounting systems IFMIS/IBEX which are capable of producing the required information regarding project resources and expenditures. Based on the regular reports received

from the federal level implementing entities and BoFED, it is the responsibility of MoFEC/COPCD to prepare consolidated quarterly unaudited IFRs, consolidate annual accounts, and facilitate the external audit of the consolidated accounts. Duties of each implementing entity in preparing regular financial reports will be described in the FM manual part of the PIM. Lessons from the past indicate that there are challenges in terms of quality of IFRs in regards to providing narrations on financial performance including budget execution and budget variances. MoFEC follows up on quality and timeliness and will ensure that checklists are in use to ensure that the reports coming from federal level implementing entities and BoFED meet the required quality and are prepared as per checklist.

30. **In compliance with International Accounting Standards and IDA requirements, MoFEC will produce annual financial statements similar to the contents of the quarterly IFRs within three months of end of the fiscal year and will be submitted for audit.** The annual financial statement will be similar to the IFRs with some modifications as to be indicated in the audit ToR.

#### *External auditing*

31. **Annual audited financial statements and audit reports (including Management Letter) will be submitted to IDA within 6 months from the end of the fiscal year.** The annual financial statements will be prepared in accordance with the standards indicated in the audit ToR agreed during negotiation. The audit will be carried out by the OFAG, or a qualified auditor nominated by OFAG and acceptable to IDA.

32. **The audit will be carried out in accordance with the International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC).** The auditor should ensure that the implementing agencies get adequate coverage in the yearly audit exercises.

33. **Once the reports are issued, MoFEC's COPCD has the responsibility to prepare audit action plans through its internal auditors within one month of the receipt of the annual audit report and report the same to the IDA.** The prepared action plan will be disseminated to all who will be responsible for taking appropriate action and responding back to MoFEC. MoFEC will be responsible to submit the consolidated status report within a maximum of three months after the receipt of the audit report. The status report must address all the findings in detail and must have been reviewed by the internal auditors recruited for COPCD at all levels.

34. In accordance with the World Bank's policies, the World Bank requires that the Borrower disclose the audited financial statements in a manner acceptable to the World Bank; following the World Bank's formal receipt of these statements from the Borrower, the World Bank makes them available to the public in accordance with The World Bank Policy on Access to Information.

35. **Lessons from existing project.** The audit reports are clean but management letters have indicated a number of issues that are being followed up. The continuous audit findings are not being resolved which is substantiated during repeat audits. It is important to resolve pending issues as per the World Bank request.

#### *FM-related Costs*

36. The IPF work plans and budget includes the costs of (a) accountants noted above; (b) audit costs; (c) related logistics and supervision costs (for example, transportation, per diem, and accommodation while travelling); (d) providing FM-related trainings, and so on.

37. **Risk assessment.** The FM risk of the project is Substantial. The mitigating measures proposed in the action plan will help reduce the risk of the project once implemented and applied during project implementation.

38. **Strengths and weaknesses.** The program will inherit the various strengths of the country's PFM system. As discussed earlier, several aspects of the PFM system function well, such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving country PFM systems through the Government's Expenditure Management and Control subprogram. The program also benefits from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties. Additional strength for the program is MOFEC's and OFAG's extensive experience in handling World Bank-financed projects.

39. The main inadequacies in FM arrangements continue to be turnover and a shortage of qualified auditors and to some extent accountants, the weakness of internal audit system and oversight thereof, inadequacies and internal control weaknesses noted in the external auditor reports of existing projects.

40. **FM Action Plan.** Table 6.1 below shows the FM action plan for the project:

**Table 6.1. FM Action Plan**

	<b>Action</b>	<b>Date due by</b>	<b>Responsible Body</b>
1	<i>Manuals:</i> (a) Prepare and submit for the IPF component a PIM covering detail FM arrangements and procedures, in line with the Government manuals, including budgeting, accounting, internal control, fund flows/disbursement, reporting and audit; (b) Prepare and submit an implementation plan for the US\$20 million Social Accountability (SA) component (streamlined with the implementation for the ESAP3)	With in three months of effectiveness of the project	MoFEC
2	<i>Budget:</i> (a) Finalize annual budget preparation early before beginning of budget year and submit the annual budget to the World Bank for 'no objection'; (b) Monitor/Track budget availability as each transaction occurs. Provide variance analysis with explanation regularly along with reporting	(a) As per GoE budget calendar annually (b) Budget control is during project implementation	MoFEC
3	<i>Accounting:</i> (a) Staffing- Recruit 2 accountants at MoFEC; Provide trainings if needed; (b) Ensure that there is no double dipping on project activities with PBS III Sub Program B and PFM project- Risk mitigation measures envisaged in this regard include preparing annual work plan and budget with separate activities; timing disaggregation; maintaining separate accounting records and documentation which are subject for review of auditors and supervision missions; and so on; (c) Ensure computerized system is in use to record and report on project transactions- IFMIS or IBEX;	(a) With in three months of effectiveness of the project (b) During implementation (c) During Implementation (d) During Implementation	MoFEC

	Action	Date due by	Responsible Body
	(d) Federal and regional COPCD should conduct regular field visits to support and monitor the performance of regions and other implementers		
4	<i>Internal Audit:</i> (a) Internal auditors review project transactions and provide necessary oversight (b) Findings follow up- external and internal audit findings are being followed up by internal auditors and are being addressed by implementing entities	During implementation	MoFEC
5	<i>Fund Flow:</i> Open DA & local separate bank account for project fund and use project monies only for eligible project expenditures	With in two months of effectiveness	MoFEC
6	<i>Reporting:</i> Submit quality IFRs to the World Bank within 60 days from end of the relevant quarter in agreed format	Ongoing during implementation	MoFEC
7	<i>External Audit:</i> (a) Finalize audit ToR and recruit auditor at early stage of the project; (b) Project financial statements will be prepared in time; (c) Submit annual audited financial statements, audit report and management letter; (d) Submit Government's response to the findings in the annual audit report to World Bank and an action plan for any follow-up actions including the status thereon; (e) Prepare status report of action taken on audit findings; (f) Disclose audit reports to the public in accordance with The World Bank Policy on Access to Information	(a) Recruit within three months after effectiveness; (b) three months after end of the year; (c) Within 6 months after end of year; (d) Within one month of submission of audit report to the World Bank; (e) Three months after submission of audit report to the World Bank; (f) Annually	MoFEC

## Procurement Arrangements

41. Procurement under the investment component will be carried out in accordance with the World Bank Procurement Regulations for IPF borrowers (Borrowers Regulations), July 2016, as well as the provisions stipulated in the Financing Agreement.

42. **Key Procurements under IPF Component.** The investment component will finance the cost for automation through IT System which includes procurement of IT and networking equipment to enhance MIS in the basic service sectors, automate GRM Offices, establish network connection between EIO and its branch offices, network development in CSA's Branch Office, as well as IT (Software and Hardware) to enhance the implementation of procurement KPI. There will also be procurement of Goods including vehicles for sectors and PFM activities, and procurement of physical infrastructure for CSA which includes procurement of agriculture census field equipment (specialized GPS) and field vehicles. There will be various Consultancy services related to activities planned under system strengthening interventions including CSA's plan to select consulting firms for support to undertake different surveys and improvements on Agriculture Census Methodology, revision on EDQAF, support for the preparation of Training Module and pilot training to rollout CSA's Training Institute. For SA subcomponent, a Management Agency will be hired for implementation of SA activities. There are Non-consultancy services related to mass media services (TV and Radio) to undertake awareness on GRM, information campaign and communication services on basic service sectors, dissemination of print materials, procurement of

training and venues for various capacity building activities related to the different initiatives in the program. Procurement of Works is not anticipated under the component.

43. **Institutional arrangement for procurement.** Procurement will be centrally implemented at two implementing agencies. CSA will be responsible for procurement activities planned under its sub-component, while COPCD under MoFEC (at the federal level) will be responsible for all other goods, consultancy and non-consultancy services with the exception of small value individual consultants and contract staff selection which will be processed under each beneficiary institution (sectors and regional level agencies). Because the programs build on the PBS investment project series staff at MoFEC are well familiar with the World Bank's procurement processes.

44. **Procurement Plan.** The Procurement Plan (finalized during negotiations) of the investment component includes the main activities indicated below in Table 6.3. In accordance with paragraph 5.9 of the "World Bank Procurement Regulations for IPF Borrowers" (July 2016) ("Procurement Regulations") the World Bank's Systematic Tracking and Exchanges in Procurement (STEP) system will be used to prepare, clear and update Procurement Plans and conduct all procurement transactions for the project. The Procurement Plan, as agreed between the World Bank and the Borrower, will specify procurement methods and their applicable thresholds, as well as activities that will be subjected to the World Bank's prior review, for all packages. The following conditions apply to all procurement activities in the Procurement Plan. The other elements of the Procurement Plan as required under paragraph 4.4 of the Procurement Regulations are set forth in STEP. The World Bank's Standard Procurement Documents shall be used for all contracts subject to international competitive procurement and those contracts as specified in the Procurement Plan tables in STEP.

45. **National Procurement Arrangements.** In accordance with paragraph 5.3 of the Procurement Regulations, when approaching the national market (as specified in the Procurement Plan tables in STEP), the country's own procurement procedures may be used. When the Borrower uses its own national open competitive procurement arrangements as set forth in Public Procurement and Property Administration Proclamation No. 649/2009, such arrangements shall be subject to paragraph 5.4 of the Procurement Regulations and the following conditions. When other national procurement arrangements other than national open competitive procurement arrangements are applied by the Borrower, such arrangements shall be subject to paragraph 5.5 of the Procurement Regulations.

46. **Procurement risk assessment has been carried out at both COPCD and CSA.** Main risks identified include: (a) inadequate staffing and sustainability of PIU at CSA; (b) inadequate record keeping system at CSA; (c) inability to sustain availability of experienced procurement staff at COPCD; (d) delays in preparation of ToRs, poor quality of ToRs and specifications, and inadequately prepared bidding documents/RFPs; (e) the possibility of including unqualified firms in shortlists; (f) limitations in technical evaluations; (g) challenges in managing and monitoring numerous Individual Consultants (including contract staff) under the project; (h) delay in procurement implementation; and (g) limitations in contract management capacity.

47. For the identified risks, the main recommendations are: (a) hire and maintain one senior procurement specialist and one contract administration officer at CSA and also ensure the PIU is extended to cover the project period, and its structure is revised to enhance internal control and record keeping; (b) involve technical experts from respective beneficiary departments during the preparation and update of the procurement plan; (c) develop an accountability framework with defined business standards, coordinate beneficiary technical departments, and involve qualified technical experts with similar experience to prepare the technical specifications and functional requirements of bidding documents and ToRs; (d) sensitize evaluators so that they understand that shortlisting unqualified firms will affect the quality of the final outcome, and ensure that qualified firms are shortlisted; (e) beneficiary organizations will be held

responsible for selection and management of Individual Consultants hired on contract basis using government procedure, and a ToR for each type of position, deployment schedule, and salary scale will be prepared and submitted for the World Bank's agreement; (f) revise incentive structure for procurement staff in accordance with market condition; (g) conduct a quarterly procurement review meeting involving all beneficiary agencies; and (h) establish a contract monitoring system, hire a qualified contract administration officer, and assign a technical focal person for consultancy contracts, deliverables-reviews and approval at both COPCD and CSA.

48. **Selection methods.** Table 6.2 describes the various procurement methods and thresholds to applicable for the IPF Component procurement activities.

**Table 6.2. Selection Methods and Thresholds**

Method	Market Approach	Procurement method threshold (US\$)	Prior review threshold (US\$)
Goods/Non Consultancy Services			
Request for Bid (RFB)	Open National	< 1,000,000	≥ 1,500,000
	Open International	≥ 1,000,000	
Request for Proposal (RFP)	Open National	< 1,000,000	≥ 1,500,000
	Open International	≥ 1,000,000	
Request for Quotation	Limited National	< 100,000	NA
Arrangement through UN Agencies	As per Paragraphs 6.47 and 6.48 of Procurement Regulations for IPF Borrowers		
Consulting services			
QCBS	National	< 200,000	≥ 500,000
	International	≥ 200,000	
LCS	National	< 200,000	NA
CQS	National	≤ 100,000	NA
	International	≤ 200,000	
Individual Consultant (IC)	Open / Limited / International / National	NA	≥200,000
	Direct	NA	≥100,000
Arrangement through UN Agencies	As per Paragraphs 7.27 and 7.28 of Procurement Regulations for IPF Borrowers		

49. **Prior Review:** The project Procurement Plan agreed between the Borrower and the World Bank will indicate activities that will be subjected to World Bank's prior review based on risk and complexity of activity. This will be updated annually or as necessary during implementation, based on the procurement capacity assessment during implementation support missions and will be reflected in the updated procurement plan as appropriate.

50. **Implementation Support and Post-Review:** Contracts not subject to prior review will be subject to Post review by the World Bank as per procedures set forth in Annex I – "Procurement Oversight" of the Procurement Regulations. The World Bank will also carry out regular procurement supervision missions on annual basis.

51. **Monitoring by STEP:** Through mandatory use of STEP by the Borrower, the World Bank will be able to consolidate procurement/contract data for monitoring and tracking of all procurement transactions. Using STEP, comprehensive information of all contracts for goods, non-consultancy services and



consultants' services awarded under the sub-component, for all contracts subjected to the World Bank's prior-review as well as post-review, will be available automatically and systematically on an annual basis and/or whenever required, including but not limited to: (a) reference number as indicated in the Procurement Plan and a brief description of the contract; (b) estimated cost; (c) procurement method; (d) timelines of the bidding process; (e) number of participated bidders; (f) names & reasons of rejected bidders, (g) date of contract award; (h) name of awarded supplier, contractor or consultant; (i) final contract value and (j) contractual implementation period, and so on.

52. **Main activities in the Procurement Plan:** COPCD has prepared and submitted to the World Bank draft Project Procurement Strategy for Development (PPSD) using simplified version. According to the PPCD that the Government has prepared, the Procurement Plan (Table 6.3) under the IPF component will include the below main activities. The Borrower shall submit the Procurement Plan through STEP, and it will be disclosed by the World Bank to the public - on the World Bank website - when the detail plan is approved by the World Bank through STEP. The Procurement Plan will be updated on an annual basis or as needed throughout the project duration to reflect the actual project implementation needs and improvements in institutional capacity. The updated Procurement Plan, as agreed between the World Bank and the Borrower, will specify procurement methods and their applicable thresholds, as well as activities that will be subjected to the World Bank's prior review, for all packages.

**Table 6.3. Summary of PPCD**

<b>Contract Description</b>	<b>Estimated cost (US\$)</b>	<b>Category</b>	<b>World Bank Oversight</b>	<b>Market Approach</b>	<b>Evaluation Method</b>
Selection of a management agent to implement CE component	17,900,000	Consultancy	Prior	Open – International	Rated criteria
Procurement of Vehicles (Qty. 17) for service delivery & coordination to be used in Regions	2,550,000	Goods	Prior	Open-international	Least evaluated price
Procurement of agriculture census field equipment for CSA	2,300,000	Goods	Prior	Open-international	Least evaluated price
Procurement of Software and IT Equipment to support implementation of procurement KPIs	1,800,000	IT supply and Installation	Prior	Open-international	Rated criteria and price
Procurement of Vehicles (Qty. 15) (estimated amount implementer CSA.	1,500,000	Goods	Prior	Open-international	Least evaluated price
Procurement of ICT and Related Infrastructure for CSA (Improvement CSA Branch Office Network, Web site, Offsite Backup and Provision of Software	1,250,000	Goods	Prior	Open-international	Least evaluated price
Selection of a consulting firm to develop standard procurement documents:	300,000	Consultancy	Prior	Open-international	Rated criteria
Selection of Training Institute to undertake procurement Audit Training	100,000	Consultancy	Post	Open-International	Rated criteria
Study on Public Sectors Accounting Standard for	200,000	Consultancy	Post	Open-international	Rated criteria

Contract Description	Estimated cost (US\$)	Category	World Bank Oversight	Market Approach	Evaluation Method
Accounting & Audit Board of Ethiopia (AABE)					
Conduct Impact assessment of FTA Initiative	200,000	Consultancy	Post	Open national	Rated criteria
procurement of Office Equipment & Computers for FEACC (estimated amount)	227,856	Goods	Post	Open national	Least evaluated price
Selection & Employment of Consulting Firm that Support the development of Environmental and Social Assessment Guidelines and Standards	100,000	Consultancy	Post	Open - international	Rated criteria
Networking the Ethiopian Institute of Ombudsman office & Regional AGMIS offices and Procurement of IT Equipment for 9 Regional and 2 City Administrations GRM offices	480,900	Goods	Post	Open - national	Least evaluated price
Selection and Employment of Consulting Firm Conduct study on Social Accountability (Process evaluation)	250,000	Consultancy	Post	Open-international	Rated criteria
Selection and Employment of Consulting Firm Conduct study on PforR (Process evaluation)	250,000	Consultancy	Post	Open - international	Rated criteria
Conduct Implementation Completion Report (ICR) on PBSIII & ESPES	100,000	Consultancy	Post	Open-international	Rated criteria

## Safeguards

53. As noted above in the Appraisal Summary, financing for the investment component is limited to capacity building and TA and does not include financing for capital investment or civil works. World Bank safeguard policies are not triggered. Thus the Environmental and social category for ESPES is determined to be “C”.

## Monitoring and Evaluation

54. A number of activities will be undertaken to monitor the implementation of the investment component and their contribution toward results. In addition to the regular JRIS missions which occur two times a year to assess implementation progress and results achievement the activities in the IPF component will be assessed using the following M&E tools:

- (a) **Process evaluation.** An overall process evaluation was undertaken of the PBS program in 2015. It provided assurance on the coherence of the PBS program with the Government GTP II. The evaluation further ascertained the validity and appropriateness of the PDO of PBS-3 in the country context at appraisal and the relevance of activities/outputs of PBS-3 in achieving this objective. It highlighted strong complementarity between the PBS program and the sector specific programs. To continue to ensure the strategic relevance and effectiveness of the program the AF will undertake a new process evaluation toward the mid-point of implementation.

- (b) **Fiduciary and safeguards system assessments.** These assessments will analyze the progress in strengthening fiduciary and environment and social management practices at the Woreda and regional levels. They will help to assess the level of implementation of the related activities in the PAP and in the investment component and provide information on how the capacity and practices have been improved at the decentralized levels.
- (c) **CE assessments.** A number of studies and assessments will be undertaken to assess the implementation and effectiveness of the FTA and GRM activities. An impact evaluation is also underway of the ESPAP 2 program which will help shed light also of the effectiveness of the SA activities under ESPES.

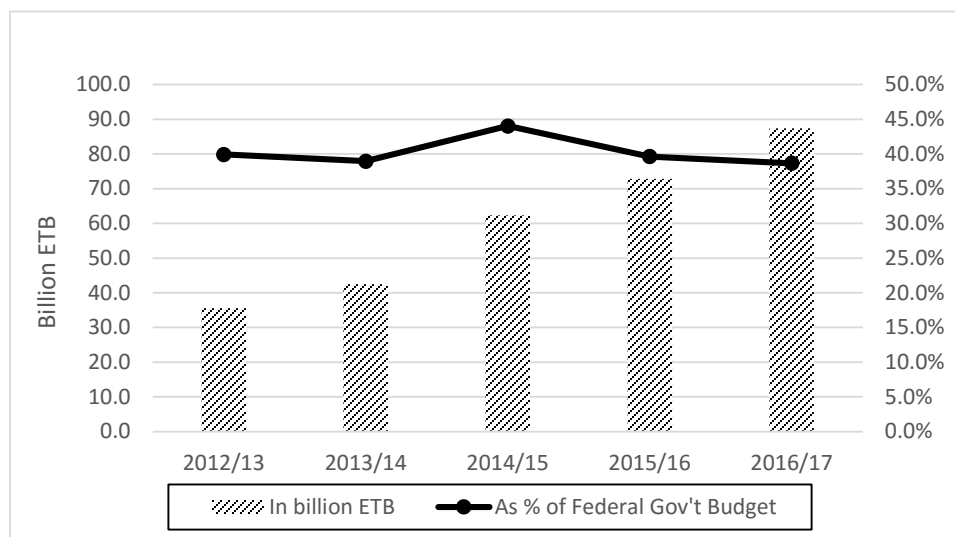
## Annex 7: Technical Assessment – Addendum

1. This is an incremental technical assessment for the proposed AF for the ESPES PforR. It updates the technical program description, definition, expenditure framework and boundaries. It also confirms the strategic relevance and technical soundness of the program including the Government's Block Grant program; the results areas for basic service delivery in the sectors (health, education, nutrition and agriculture) and for CE. The assessment also provides an updated capacity evaluation of existing implementing agencies as well as the monitoring and verification protocols. Unless otherwise indicated the technical assessment undertaken for the ESPES program in 2015 still applies. The objective of this annex is to highlight where there are changes to the technical areas that the proposed AF for the ESPES will support.

### Program definition, boundary and expenditure framework

2. **In Ethiopia's decentralized system, subnational Governments heavily rely on block grant transfers from the Federal Government to deliver the services that fall under their mandate.** On average, block grant transfers account for about 80 percent of total regional level budgetary resources, while the remaining 20 percent is covered through own revenue collection. The increase in the block grant transfers from the Federal Government has picked up pace over the past few years. During the FY13-17 period, the Federal Government increased its block grant allocation to regions by an average annual rate of about 26 percent. Accordingly, their share from total Federal Government budget hovered around 40 percent over the past years (Figure 7.1).

Figure 7.1. Federal Block Grant Allocations

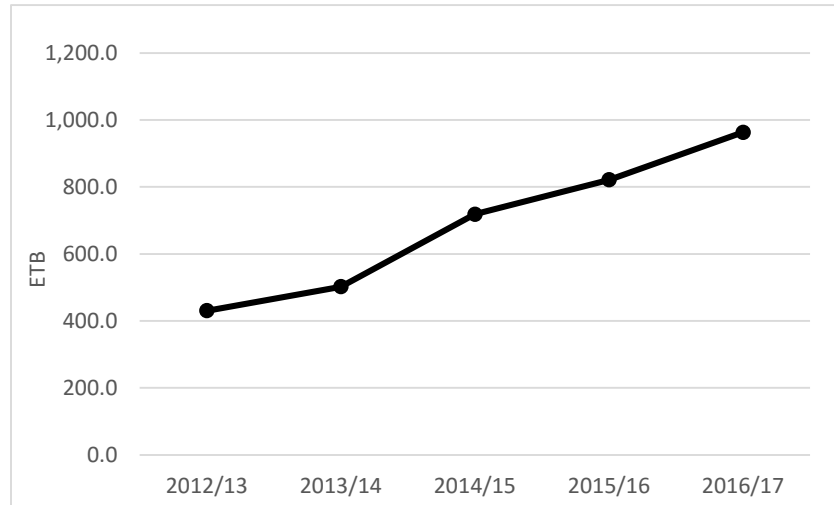


Source: MoFEC

3. **The increase in block grant transfers has been impressive even when adjusted for inflation.** Over the past five years, inflation-adjusted block grant transfers grew by about 13 percent annually (Figure 7.2). The increase in block grants per capita terms was 21 percent (Figure 7.3). Each year, the full block grant amount is channeled onto regions which keep around 40 percent of the grant for financing regional level expenses which are mostly on building infrastructures including schools, health centers, hospitals, roads, and so on. The remainder is channeled on to Woredas. Budget execution is monitored by continuous audits. Over the current ESPES program period (FY16-FY18) US\$6.749 million has been spent of the US\$6.818 million forecasted to be budgeted and allocated for Woreda block grants in 2015 (excluding the share that is retained at regions). The discrepancy is largely due to over ambitious Government forecasts.

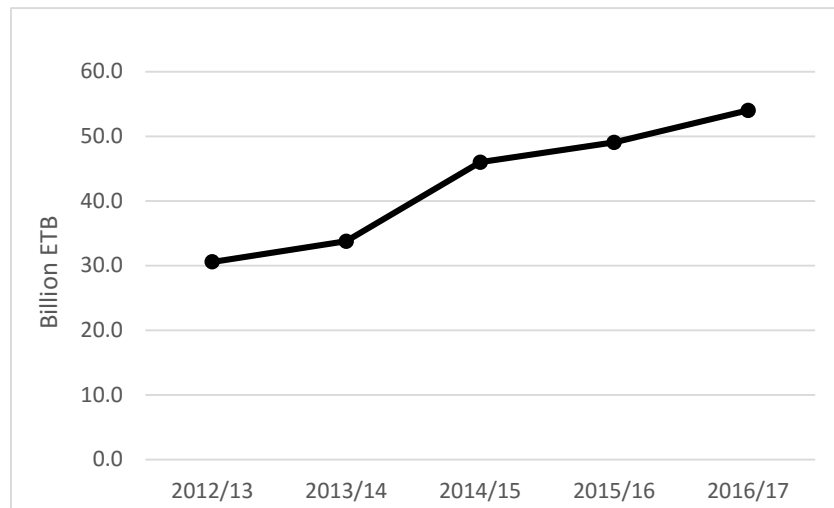
4. **The Government has taken up an increasingly larger share of the financing of the block grants.** Accordingly, the contribution of Development Partners currently stands at less than 10 percent compared to around 23 percent five years ago (Figure 7.4).

**Figure 7.2. Per capita FBG transfers**



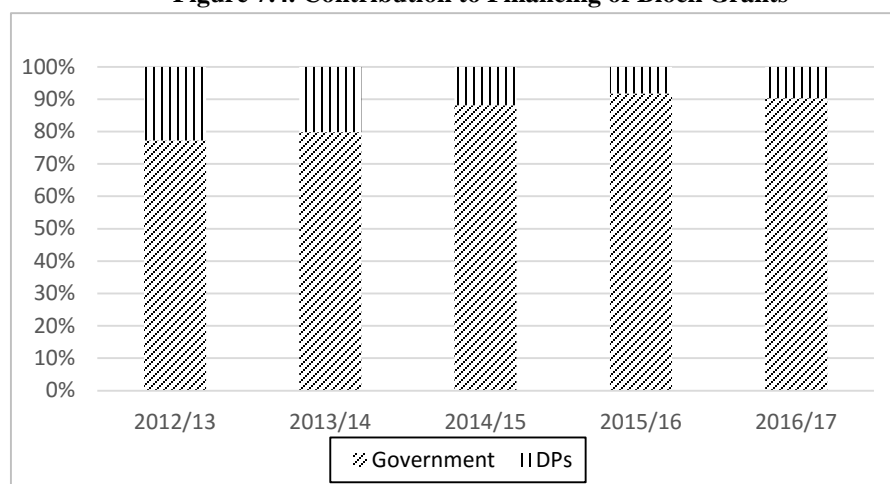
Source: MoFEC and CSA

**Figure 7.3. Inflation-adjusted FBG transfers**



Source: MoFEC and CSA

**Figure 7.4. Contribution to Financing of Block Grants**



Source: MoFEC

5. **The pace of increase in block grant allocation is envisaged to pick up over the medium term.** According to the May 2016 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 35 percent over the next five years (Table 7.1). Thus, based on population forecasts by the CSA, the envisaged annual rate of increase in per capita block grant allocation over the next five years is 32 percent. The current block grant allocation formula which has been employed during the last four fiscal years is expected to be revised in the next fiscal year. However, based on past experience, it is not expected that the revised formula will significantly alter the regional shares from total block grant allocation. However, the Government's forecast for outer years tend to be slightly too ambitious and the real budget allocation may be slightly smaller.

**Table 7.1. Federal Block Grant Allocations to Regions and Woredas - Medium-term Forecasts\* Billion ETB**

Regional States	Original ESPES program			ESPES AF		
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Budget	Forecast			
Tigray	5.2	6.2	8.2	11.1	15.3	20.6
Afar	2.3	2.7	3.6	4.8	6.7	9
Amhara	16.9	20.3	26.7	36.1	49.8	67.2
Oromia	23.7	28.4	37.4	50.5	69.6	94
Somali	5.9	7.1	9.4	12.6	17.4	23.5
Benishangul-Gumuz	1.5	1.9	2.5	3.3	4.6	6.2
SNNP	14.7	17.6	23.2	31.3	43.1	58.2
Gambella	1.1	1.3	1.7	2.3	3.2	4.3
Harari	0.7	0.9	1.2	1.6	2.1	2.9
Dire Dawa	0.8	1	1.3	1.8	2.5	3.4
<b>Total</b>	<b>72.9</b>	<b>87.4</b>	<b>115.1</b>	<b>155.4</b>	<b>214.4</b>	<b>289.5</b>

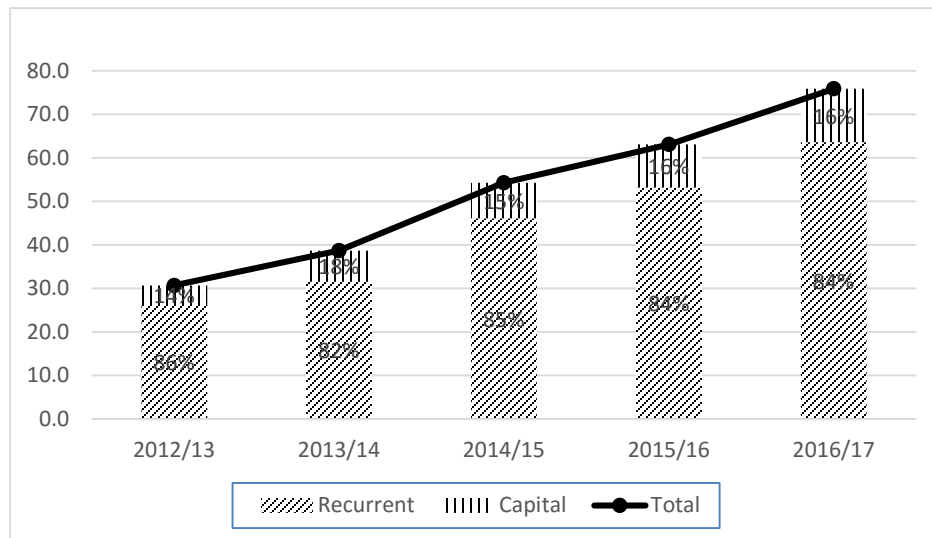
Source: MoFEC

\* As the MEFF do not provide regional breakdown of the block grant allocations for the forecasts, we used the current formula to allocate the total amount of block grants among the regions for the period 2017/18 – 2020/21.

6. **Consistent with the increase in block grant transfers, Woreda level expenditures have grown significantly over the past few years.** Accordingly, during the past five years, Woreda expenditures picked up at an annual average rate of about 26 percent. Woreda level spending continued to be dominated by recurrent expenditures that absorbed nearly 85 percent of total expenditures (Figure 7.5). Looking at the

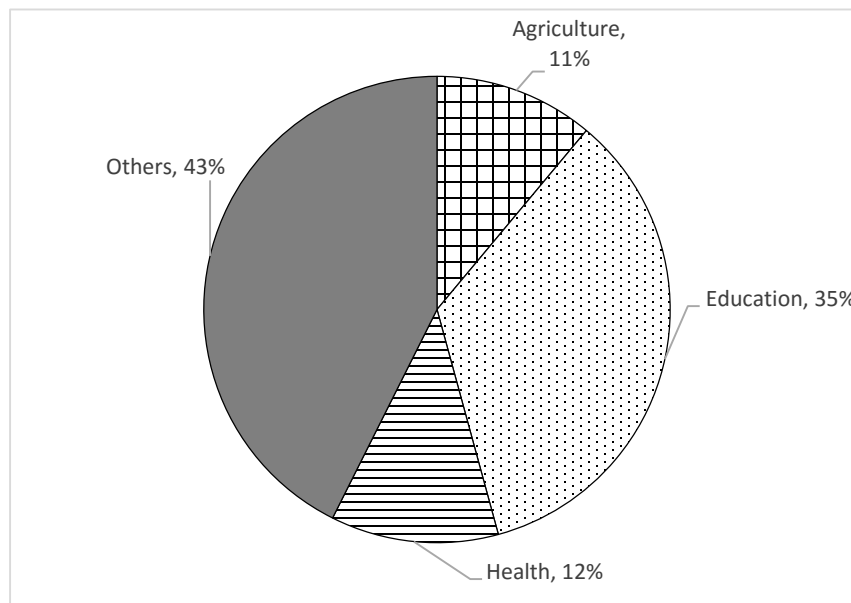
sectoral breakdown, nearly 60 percent of Woreda expenditures were allocated to the three sectors supported by the project, namely education, health and agriculture (Figure 7.6). From the basic service sectors, Woredas' allocation to water and rural roads has increased slightly over the past five years while the share of education has declined marginally (Figure 7.7).

**Figure 7.5. Woreda Expenditures, in billion ETB**



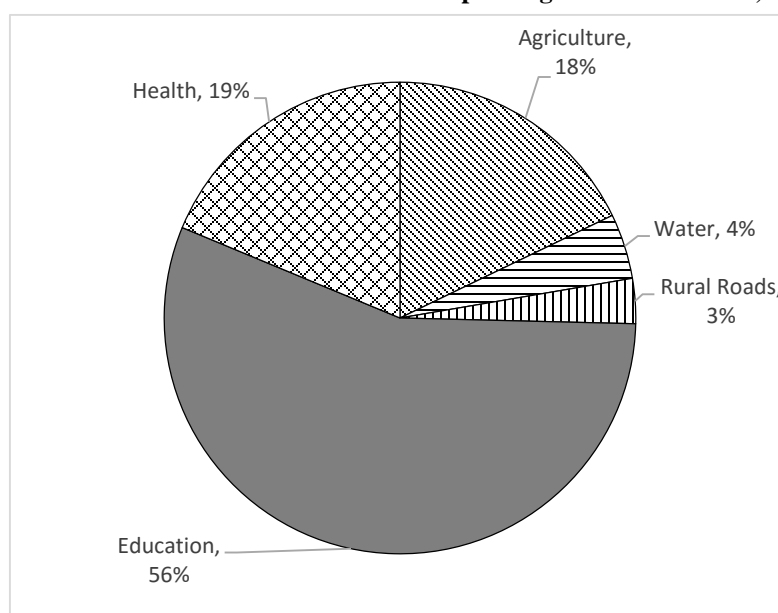
Source: MoFEC

**Figure 7.6. Sectoral Breakdown of Total Woreda Expenditures, FY13 - 16**



Source: MoFEC

**Figure 7.7. Sectoral Breakdown of Woreda Spending on Basic Services, FY13 - 16**



Source: MoFEC

### Strategic relevance and technical soundness

7. **Strategic importance.** The main objective of the decentralized *Inter Governmental* block grant transfers system is to continue the provision of basic services that help to achieve human development agenda of the country. Improving human development outcomes to all citizens is at the center of the country's grand policy to foster equitable growth and structural transformation of the economy (GTP II) and using the block grant system. The hallmark of GTP II vis-à-vis these services is the increased attention rendered to improving quality and ensuring equitable access to services to all citizens. For example, in line with the Government's current five-year national plan for health, the sector continues to emphasize primary health care and preventive services with a focus on extending services to those who have not yet been reached and on improving the effectiveness of services, especially addressing difficulties in staffing and the flow of drugs. The emphasis in ESPES to financing recurrent budget will come a long way to addressing this challenge, especially in improving staffing with emphasis on quality and right gender mix.

8. **Theory of Change.** Over the last decade, Ethiopia's overall record of achievement in basic service delivery in health, education and agriculture outcomes has been striking. The general 'theory of change' underpinning the ESPES program centers around the effectiveness of the Woreda block grant system mechanism in expanding service delivery, supported by robust national accountability systems for CE, fiduciary management, ESMC, and quality data systems. 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 Ethiopia Poverty Assessment (2014) cited 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 66 percent in 2015/16. A PSIA for the Promotion of Basic Services (PBS) project (the precursor to the ESPES PforR) found that Woreda level spending was more effective in reaching the bottom 40 percent than national spending. The existing ESPES DLIs support has strengthened outcomes in human development areas; improved vertical and horizontal gender equity in the access and quality of services; improved governance and fiduciary system



at the Woredas for managing basic services and related expenditures; and expanded CE and improved environmental and social safeguards in the delivery of services.

9. **Despite the success, there is room for improvement especially in enhancing gender, socioeconomic, and geographic equity in access to quality services.** This was also noted in the last JRIS undertaken for the ESPES and PBS program. For instance, while there have been impressive advancements in many health and education outcomes at the national level<sup>26</sup> there are large variances among geographic areas. For instance, the average NER in grades 5-8 for the bottom 20 percent percent of Woredas is 40 percentage points lower than the national average<sup>27</sup> and the average grade 8 completion rates in bottom 20 percent Woredas is 36 percentage point lower than the national average<sup>28</sup>. A similar trend is identified in other indicators such as dropout rates, GPI for most education indicators, and early years grade specific completion rates. The existing ESPES project measures outcomes for the list of 10 percent of Woredas that have the lowest performance in Penta 3 vaccine coverage and NERs grade 5-8. In the AF the geographic scope will be increased to the bottom 20 percent of Woredas nationwide. The overwhelming majority of these lagging bottom 20 percent of Woredas are found in the emerging regions such as Afar and Somali and in the peripheries of Oromia and SNNP regions.

10. **Moreover, benefit incidence analysis has shown large discrepancies in service delivery outcomes and outputs between the socio-economic groups.** There are still about 25 million people living in absolute poverty, malnutrition is still high, and about 38 percent of the Ethiopian children below the age of five are stunted, despite the commendable progress in reducing the number of people living below the poverty line (DHS, 2016). In PSNP Woredas, the rate of chronic child malnutrition (stunting) was 51 percent in 2016 which is much higher than the national average (IFPRI, 2016). Moreover, according to the 2014 DHS, the difference between the top and the bottom wealth for antenatal care (ANC) 4+ services is 51 percentage points (60 percent vs. 9 percent). Similarly, according to the 2011 DHS, the top-bottom difference for immunization coverage 33 percentage points for measles (80 percent vs. 47 percent) and 34 percentage points for full immunization (51 percent vs. 18 percent). The existing ESPES project monitors improvements in net school attendance rates and Penta 3 vaccine rates for the bottom wealth quintile using DHS and WHO survey data. However, these surveys will not be available again until 2021 which makes it impossible to monitor any wealth equity service delivery indicators during the timeframe of the AF.

11. **Differences in service use and outcomes are also different by gender.** The gains made in promoting gender equality, particularly in the participation of women in leadership positions, should be complemented with improvement in the quality of that participation. While the GPI in enrollment rates is generally on par nationwide, data show that in the regions which house the majority of the bottom 20 percent of Woredas. Girls are lagging behind in many of the key education service outcome indicators. For instance, in the bottom 20 percent of Woredas, average girls' grade 8 completion rate is 5.3 percentage points lower than boys. Similar trends are noticed on NER (grades 5-8), where, compared to boys, girls fare worse by 3.4 percentage points<sup>28</sup>. Also, studies have shown that women (female farmers) have less contact with agriculture DAs and their fields are 23 percent less productive than male farmers.<sup>29</sup> This is partly due to the fact that the overwhelming majority of DAs that are entrusted to disseminate modern agricultural practices and provide extension services are male and they face cultural constraints in how they interact with female

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<sup>26</sup> NERs grades 1-4 are close to 100 percent (EMIS data), and the number of women dying during child birth have dropped significantly from 31,000 in 1990 to around 11,000 in 2015 (MoH, HSTP APR, EY 2008 (2015/16)).

<sup>27</sup> Data analysis using EMIS 2008 database.

<sup>28</sup> The mean differences between boys and girls on NER 5-8 and Grade 8 Completion rate in bottom 20 percent Woredas are statistically significant at  $p < 0.001$ .

<sup>29</sup> World Bank. 2008. *Gender in agriculture sourcebook*. Agriculture and Rural Development. Washington, DC: World Bank

farmers. The realities stress the need to promote outreach to women on agriculture production issues. Increasing the number of female agriculture extension/DAs is therefore very important to enhance female farmers' agricultural extension service utilization. The same approach has been recommended by several studies.<sup>30</sup>

12. **Given these shortcomings and the realities of data availability, the ESPES AF will have a specific focus on improving gender and geographic equity of services.** Specifically, the education and agriculture sectors will include indicators aimed to improve services for girls and women. Also, in health and education, results will be monitored specifically for the 20 percent of Woredas which have the lowest indicator outcomes in the country. The Woreda lists for health and education indicators that will be monitored in the bottom 20 percent are included at the back of this annex. The list for the Girls' completion rates in grade 8 will be used also for monitoring NEW grade 5-8 achievement given that there is a very large overlap in Woredas. These lists were extracted from the data on NERs grade 5-8 and Girls Completion Rate grade 8 from the MoE EMIS ECY2008 and for Penta 3 vaccination coverage from the MoH HMIS EFY2009 using the 10 first months of data available.

13. **Another weakness that have been identified through the technical assessment and through the experience of ESPES and PBS so far is the need to improve the availability of utilities at service points.** Sector results are not only achieved through efforts of the related sectoral ministry but require inputs and investments by several sectors. For instance, for girls to be able to attend and learn in schools, water and girls-only toilets are needed. Water and electricity are essential at health centers and posts to ensure cleanliness and proper storage of drugs and medicines. Therefore, the AF will also include a focus on improving the availability of utilities and inputs from other sectors and to ensure the intersectoral collaboration at the federal, regional and Woreda levels. Using health facility survey data and school inspection reports, the AF will monitor the results and activities to support intersectoral coordination will be included in the PAP.

14. **The World Bank's analytic work has established the critical importance of CE and other demand-side Woreda and kebele level awareness activities** to inform the citizens about the benefits that basic services bring to them; their rights in terms of quality service standards; and the importance of using basic services to promote and protect their families' wellbeing and productivity. Over the past few years Ethiopia's service delivery efforts have been bolstered by the game changing CE activities. The experience so far in Ethiopia shows that supporting CE alongside of service delivery programs has the potential of radically improving governance and accountability of service providers to citizens. For this reason, through the AF of ESPES will continue to have a strong focus on institutionalizing the gains in SA, fiscal transparency, and grievance redress functions as a way of improving the demand side of service delivery. A key principle of the health sector business process reengineering has been improving the quality of health services through institutionalizing accountability and transparency. ESPES support to CE will contribute to advancing the Government goal in this regard through variety of accountability and transparency instruments being implemented in growing number of Woredas and kebeles in the country.

15. **Other demand-side efforts such as Behavior Change Communication including awareness raising and information dissemination campaign to households on the importance of continued use of services also boost outcomes.** For instance, in designing a framework for evaluating behavior change

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<sup>30</sup> See publications and reports such as (a) World Bank. (2010). *Gender and governance in rural services: Insights from India, Ghana and Ethiopia*. Washington, DC: World Bank; (b) Mulema, A., & Damtew, E. (2016). Gender-based constraints and opportunities to agricultural intensification in Ethiopia: A systematic review; (c) Manfre, Cristina, et al. *Reducing the gender gap in agricultural extension and advisory services*. MEAS Discussion Paper. Washington, DC: Cultural Practice, 2013.

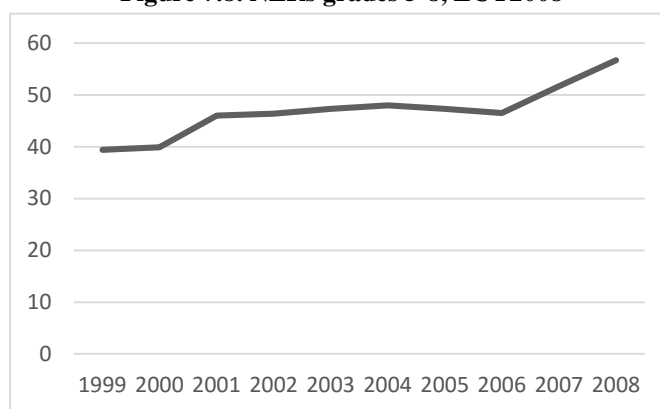
in development interventions, the IEG of the World Bank illustrates several successful World Bank projects that incorporated behavior change communication activities<sup>31</sup>.

## The status of sector outcomes and outputs

### Education

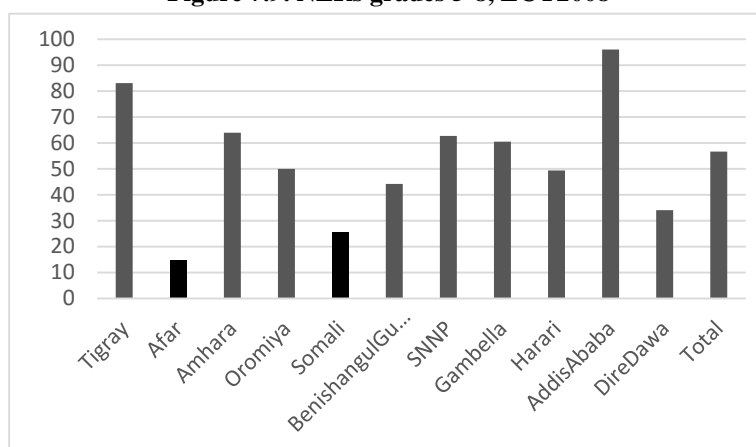
16. **Access:** Over the last couple of years there is a significant improvement in achieving national targets for access to education. However, enrollment rates in all regions except Addis Ababa has only shown a modest increase over the past decade. In addition, there is large subnational variation indicating that more work needs to be done in ensuring equitable access to underserved regions and Woredas (Figures 7.8 and 7.9). Similarly, national completion rates for grade 8 have not improved much over the last decade and remain below 60 percent. Again, some regions are even more behind (Figures 7.10 and 7.11). Dropout rates, although difficult to monitor on a timely basis, have been reduced from an average of around 16 percent between ECY1999 and ECY2004 to 8 percent in ECY2005 but have then increased to 11 percent in ECY2007. A key reason behind high drop-out rates and low enrollment rates in the bottom regions (especially Afar and Somali) is the pull of children to the labor market or for helping out with chores to manage the household livelihood, especially for children in the age range of grades 5-8.

**Figure 7.8. NERs grades 5-8, ECY2008**



Source: MoE EMIS ECY2008

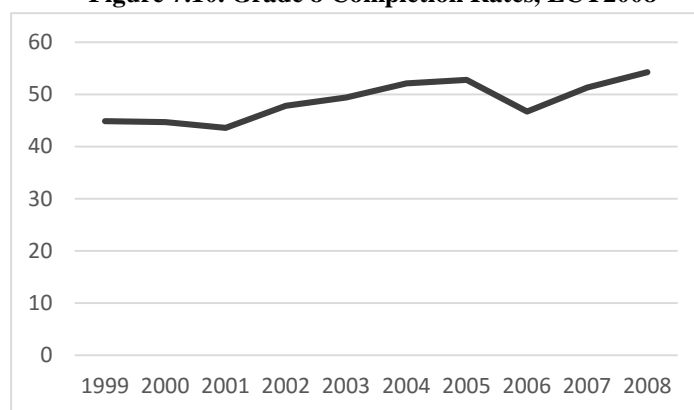
**Figure 7.9. NERs grades 5-8, ECY2008**



Source: MoE EMIS ECY2008

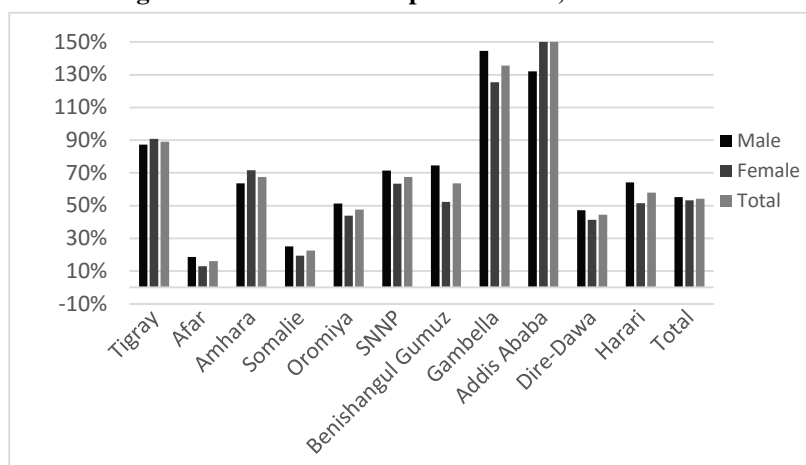
<sup>31</sup> Flanagan, A. E., & Tanner, J. C. (2016). Evaluating Behavior Change in International Development Operations.

**Figure 7.10. Grade 8 Completion Rates, ECY2008**



Source: MoE EMIS ECY2008

**Figure 7.11. Grade 8 Completion Rates, ECY2008**



Source: MoE EMIS ECY2008

17. **Equity:** Gender parity in second cycle primary education net enrollment nationwide is generally high around 98 percent in ECY2008. Even some of the underserved regions have relatively high gender parity (over 80 percent in all regions in ECY2008). While the pull of adolescent boys to the labor market is of concern in some areas, sub-national data on net enrollment for grades 5-8 and grade 8 completion rate show that in the bottom 20 percent of Woredas it is girls that are generally disadvantaged (Table 7.2). Another disadvantaged group are children with special needs. Gross enrollment rates nationwide for children with special needs is only 8 percent. Afar, Somali, and Gambella have special needs gross enrollment rates of 0 percent (ECY2008).

**Table 7 2. Gender Parity in Education, ECY2008**

		Male (%)	Female (%)	Difference (%)	GPI
<b>NER 5-8</b>	Nationwide	57.3	56.0	1.3	0.98
	Bottom 20%	18.6	15.3	3.3*	0.82
<b>Grade 8 Completion rate</b>	Nationwide	55.3	53.3	2.0	0.96
	Bottom 20%	17.7	12.4	5.3**	0.70

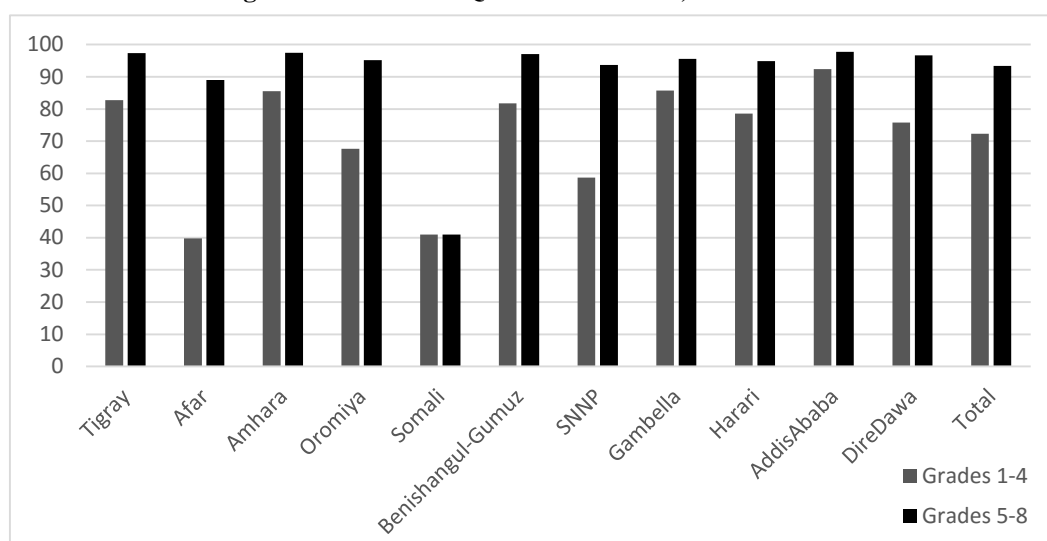
Source: Authors calculation based on MoE EMIS, ECY2008

\* Mean difference is significant at  $p < 0.001$

\*\* Mean difference is significant at  $p < 0.0001$

18. **Quality.** Teacher qualification is an important aspect of improving student learning and other outcomes in Ethiopia. The most recent Ethiopian National Learning Assessment report (2016) presents evidence that teachers qualification level, experience and continuous training have a significant and positive correlation with student learning abilities, as measured directly by test scores. The standard minimum qualification for primary school level teachers is diploma (that is, 2 years of college training), and for secondary education is degree (3 or 4 years of college education). According to EMIS data (ECY2008), while there is significant progress made over time on improving teacher qualification, more effort is needed in emerging regions such as Afar, Oromia, Somali, and SNNP (Figure 7.12). Because the environments for teachers in some of these regions is challenging, over the recent years there has been an attrition of qualified teachers and the ministry has had to resort to hiring less qualified teachers just to keep schools up and running. Hence, ensuring that enough qualified teachers are present in the bottom four regions is a real challenge.

**Figure 7.12. Share of Qualified Teachers, ECY2008**



Source: MoE EMIS, ECY2008

19. EMIS data also shows that the share of primary schools that have a piped water connection and separate toilets for girls is very low in several regions. These aspects are shown to be key to female student retention and school performance.

20. **Indicators selected for ESPES AF.** The data show that the current DLI on NERs needs to be further scaled up and in particular in the worst performing Woredas (heavily concentrated in the Afar and Somali regions). Moreover, to ensure that the attention is kept on final education sector results, completion rates in grade 8 for girls is also selected as a DLI indicator. While the World Bank's new education project will focus on this indicator at a national level, the ESPES AF will monitor the achievement in the bottom 20 percent of Woredas. Share of qualified teachers (with diploma) is also selected as a DLI. However, these data are not available at the Woreda levels but will be monitored in the 4 regions with the lowest share of qualified teachers in grade 1-4 (Afar, Oromia, Somali, and SNNP). Other aspects of quality, equity, and sectoral interlinkages such as GPI; availability of essential utilities in schools; and special needs enrollment is also monitored. Learning achievement levels, completion rates nationwide, and other quality and equity quality indicators are monitored through the World Bank's new education project either as DLIs or as other indicators.

21. The chosen indicators are fully consistent with the GTP II for the education sector. Improving net enrollment and completion rates, reducing dropout rates, improving gender parity in all grades, enhancing

quality of front line service providers, and increasing gross enrollment ratios for special need education are the core areas highlighted as performance indicators by which the success of the GTP II is monitored every year.

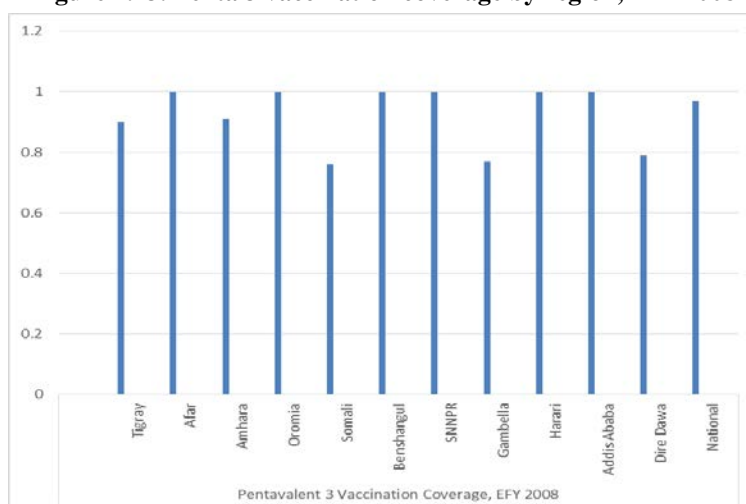
## **Health**

22. Ethiopia has consistently improved health outcomes during the past two decades. Factors that have contributed to impressive health sector results include strategic priorities that focused on preventive and community based health care, series of five-year national health sector development programs coordinated very well both vertically and horizontally, growing resource allocation and community mobilization. But there are aspects of the health service delivery that needs improvement especially related to equitable access to services in some regions and in pastoralist areas. The current medium term Health Sector Transformation Plan has fifteen strategic objectives, including most relevant to ESPES program: improving health status, improving equitable access to quality health service, and enhancing good governance. Equity and quality of care has been set as a transformation agenda in the Health Sector Transformation Plan (HSTP).

23. **Access and equity.** Though the proportion of women who had at least one ANC visit has risen from 27 percent in 2000 to 62.4 percent in the 2016 DHS, the proportion of women with 4+ ANC visits remains low at only 31.8 percent. The DHS 2016 reports that 17 percent of women who had given birth in the 2 years before the survey had received postnatal care within two days of delivery, a percentage that has steadily improved in the last decades but still remains below acceptable levels. In addition, the coverage of contraceptives (using any method) varies largely by region. It is 55.9 percent in Addis Ababa but only 1.5 percent in the Somali Region. Data also show high variation between regions in contraceptive acceptance rates with the variations being considerably higher in the big regions of Southern Nations, Nationalities and Peoples (SNNP), Amhara, and Oromia (DHS, 2016).

24. The national level of skilled birth attendance is at 27.7 percent but ranges from 16.4 percent in Afar to 96.8 percent in Addis Ababa - a difference of about 80 percentage points (DHS, 2016). Similarly, according to HMIS data, while the proportion of children vaccinated with three doses of Pentavalent (Penta-3) has reached to 96 percent. There still exists substantial Woreda level variation where the average performance for the bottom 20 percent of Woreda is around 55 percent (Table 7.13). Trends of the last few years show that the average in these 20 percent of Woredas has actually decreased from 57 percent in EFY2006 which is alarming. One of the reasons for the decline is the challenge of cold-chain management and the ministry is planning on supplying more solar-powered refrigerators in these areas. Somali, Benishangul-Gumuz, and Gambella regions as well as Dire-Dawa city administration are lagging behind with performance lower than 80 percent (Figure 7.13). Such equity challenge is also indicated in the DHS 2016 results, where Afar, Somali, and Oromia regions scored way below the national average. These regions are homes to the overwhelming majority of the bottom 20 percent Woredas as well as to households of the lowest wealth quintiles, whose Penta-3 performances is 37.6 percent (DHS, 2016). Table 7.3 summarizes some of the inequities in access to health case.

**Figure 7.13. Penta 3 vaccination coverage by region, EFY2008**



Source: MoH HMIS, EFY2008

**Table 7.3. Inequities in access to health care, DHS 2016**

	National Average (%)	Bottom Wealth Quintile (%)
Antenatal Care (at least one visit to a skilled provider) *	62.4	49.8
Antenatal Care (with four or above visits) *	31.8	19.1
Contraceptive Acceptance Rate (Married Women) *	35.9	22
Skilled Birth Attendance*	27.7	13.1
Penta 3 Vaccination*	53.2	37.6
Penta 3 Vaccination (HMIS EFY2008) **	97.6	56.4 (Bottom 20% Woredas)

Source: \* Ethiopian DHS, 2016

\*\*MoH, Health and Health Related Indicators, EFY2008

25. **Quality.** Quality of health services is a major challenge as identified by the Government in the Sector Strategy. Health quality problems are generally related to lack of adequate knowledge and skills, shortage of medical supplies and equipment, and lack of facilities and utilities (including water & power). Current quality related initiatives by the MoH focus on hospital level service. During the ESPES AF period close monitoring will be made on quality of health service at lower levels, especially at health post level. For example, it is critically important to enhance the knowledge and skills of HEWs to deliver quality health service to the community by providing in-service training and career development education. Similarly, the quality of health service provision is greatly compromised by lack of adequate facilities and utilities in many lower level health facilities. Accordingly, upgrading of HEWs qualification to level 4 and improved availability of utilities will be monitored during ESPES AF period.

26. **Data on the availability of water at health facilities is presented in Table 7.4.** The fact that only 56 percent of health facilities have water supply is a grave concern given the importance of clean water in diagnosis and treatment. Contamination of diseases in health facilities is likely to be very high. The concern is greatest in Afar, Somali, Oromia and Gambella regions, where the average coverage for these regions is 28 percent in ECY2008.

**Table 7.4. Distribution of health facilities (HF) with water supply by region, EFY2008**

<b>Regions</b>	<b>Number of Health Facilities<sup>32</sup></b>	<b>Number of Health Facilities that have Water Supply</b>	<b>Coverage (%)</b>
Tigray	239	204	85
Afar	90	35	39
Amhara	891	680	76
Oromia	1,391	474	34
Somali	217	57	26
Benishangul Gumuz	41	39	95
SNNP	740	507	69
Gambella	33	4	12
Harari	12	14	117
Addis Ababa	104	69	66
Dire Dawa	17	17	100.0
National	3,775	2,104	56

Source: MoH, Health and Health Related Indicators, EFY2008

27. The shortage of human resources for health is also well recognized in Ethiopia. Ethiopia's Health Extension Program and the Health Development Army have brought together groups of women to mobilize the community and promote healthy behavior, leading to significantly improved access to Primary Health Care services, particularly for the rural poor. Currently, around 26,000 HEWs provide services, mostly in rural areas, complemented by 440,000 Health Development Army groups. Regional data are displayed in Table 7.5. Under the Health Sector Strategy, the Government plans to expand the network of HEWs and the Health Development Army to reach a larger rural population, especially in emerging regions where pastoralist and migratory populations require a tailored approach and modality. HEWs receive mentoring and supervision from health officers stationed at the local health center. The FMOH has also been implementing a strategy for Continuous Professional Development for HEWS. The proportion of HEWs who have enrolled to upgrade their qualification to Level 4 has increased to 19.3 percent. However, the effort in improving the qualification of HEWs is lower in the bottom 4 regions (that is, Afar, Oromia, Beneshangul-Gumuz, and Gambella), where the HEWs Level 4 enrolment ratio averaged to 13.6 percent, indicating increased effort to be exerted in improving the qualification of HEWs in these four regions.

**Table 7.5. HEWs Training and Deployment by region, EFY2008**

<b>Region</b>	<b>Cumulative number of HEWs</b>	<b>Number of HEWs Enrolled for Upgrading to Level IV</b>	<b>% HEWs Enrolled for upgrading to Level IV<sup>33</sup></b>
Tigray	1,093	278	25.4
Afar	725	0	0.0
Amhara	4406	1,000	22.7
Oromya	9,851	1,504	15.3
Somali	1,792	400	22.3
Benishangul Gumuz	816	100	12.3
SNNP	6659	1,200	18.0
Gambella	408	0	0.0
Harari	18	42	233.3

<sup>32</sup> Health Centers and Hospitals

<sup>33</sup> Please note this proportion does not show cumulative level IV trained over total but rather one year take in Level 4 training out of total HEWs.



Addis Ababa	-	88	
Dire Dawa	111	30	27.0
<b>Total</b>	<b>25,879</b>	<b>5,005</b>	<b>19.3</b>
<b>Bottom 4 Regions</b>	11,800	1,604	13.6

Source: MoH, Health and Health Related Indicators, EFY2008

28. **Health financing.** The sustainability of domestic financing of health services in Ethiopia is questioned. Government budget allocation for health has been increasing in nominal terms, though it remains low as a share of total Government expenditure. The allocation for health has been low, accounting for an average of 7.4 percent of regional expenditures, 0.8 percent of federal allocation, and 3.7 percent of the overall national Government expenditure.

29. **Ethiopia's health sector has multiple financing sources including the Government treasury (federal, regional, and Woreda/district levels), bilateral and multilateral donors, household out-of-pocket expenditures, international and local NGOs, private and parastatal employers, and insurance companies.** In EFY2008, the percentage of total budget allocated in the health sector at regional level was 11.3 percent, which was slightly higher than in ECY2007 (11.1 percent). In this fiscal year, there was an increment on the per capita health allocation from ETB 122.78 in the previous fiscal year to ETB 156.31. The regional block grant budget allocated to the health sector ranged from 7.4 percent in Addis Ababa to 14.0 percent in Dire Dawa in the same year. Except the decrease in the percentage share of health budget from last year in SNNP and Gambella Regions, there was an increase in the eight regions and remained the same in one region (Amhara Region).

30. **There has been a tremendous increase in Ethiopia's overall health expenditure, both in nominal and per capita terms.** The major source of funding for the Ethiopian health sector is financial contribution from development partners. In ECY2008, a total amount of US\$285.43 million was committed and a total amount of US\$238.54 million (83.6 percent) was disbursed using Channel 2 modality to the health sector.

31. **Indicators selected for ESPES AF.** The data show that the current DLI on Penta 3 vaccinations needs to be further scaled up and in particular in Woredas (heavily concentrated in Somali, Benishangul-Gumuz, Gambella and Dire-Dawa). To ensure that the attention is kept on final health sector results, births attended by a skilled professional is also monitored but not selected as a DLI indicator as it is covered by the World Bank's health sector PforR. Other indicators related to equitable access such as antenatal care visits and facilities with access to water will also be monitored as they are key factors that influence maternal and child deaths. Instead ESPES AF will continue to monitor the improvement in qualified health workers. However, these data are not available at the Woreda levels but will be monitored in the four regions with the lowest skilled birth attendant rate (Afar, Oromia, Somali and Amhara). The aim is to increase the number of HEWs in these regions who can deal with complicated births and hence reduce maternal and infant mortality rates. Other aspects of quality and sustainability of services such as availability of utilities at health centers is also monitored. While mortality rates (child, infant and maternal) are ultimate indicators of health service performance they cannot be monitored during the lifetime of the project as data are not available and their rate of change is too slow.

## **Nutrition**

32. **While Ethiopia has seen a great reduction in malnutrition rates over the past decades stunting remains high, around 38 percent for children 0-59 months (DHS, 2016), down from 58 percent in 2000.** In Amhara stunting is the highest at 46 percent while in Gambella and Addis Abeba it is the lowest 24 percent and 15 percent respectively. The national HSTP target is set at 16 percent which is currently not reached by any region. Differences within regions are even higher, and the poorest populations have a much

higher stunting incidence than the average population. In the 330 PSNP Woredas stunting rates are as high as 51 percent among children 0-59 percent (IFPRI, 2016). Malnutrition in Ethiopia starts even before conception. Evidence shows that as many as 27 percent of women of child bearing age suffer from chronic malnutrition and the minimum dietary diversity is very low such that mothers and children do not get sufficient essential micronutrients and proteins in their diet. Only 26 percent of children aged 6-23 months consume Vitamin A rich foods and 13 percent consumed iron rich foods.

33. **Equity.** The poorest Ethiopians, such as PSNP households, experience even higher challenges. Twenty-nine percent of women in PSNP households under the age of 40 are underweight (BMI < 18.5 kg/m<sup>2</sup>). Only 0.7 percent of children in PSNP households between 6 and 23 months receive a minimum acceptable diet (number of meals and food groups) (IFPRI, 2016). The number of food groups consumed is also low: children 6-23 months consume 1.4 food groups and children 24-59 months consume 2.9 groups. Their diet mainly consists of grains, roots, and tubers, which do not provide the necessary nutrient requirements.

34. **Nutrition determinants.** The contributing factors of malnutrition in Ethiopia are many and include low education attainment of women; poor access to improved water supply; low access to health and agriculture extension services such as from health care workers and agricultural DAs. This leads to poor knowledge among mothers about appropriate food preparation and handling; poor knowledge about breastfeeding and child feeding practices; inadequate sanitation and handling of food and waste; and low health seeking behavior before and after birth.

35. Especially among PSNP households access to health care services is very low. The health seeking behaviour of pregnant and lactating women in PSNP client households in the highlands is the following:

- 33 percent of PSNP mothers with children 0-23 months had contact with a HEW in the past 3 months;
- 59 percent of pregnant women in PSNP households received any antenatal care;
- Less than 28 percent of children under 5 years of age participated in the MoH's Growth Monitoring and promotion;
- less than half of women received advice on nutrition;
- knowledge of mothers on best practices for infant and young child feeding is low; and
- mothers know on average only 7.9 out of a maximum of 14 good practices of infant and child feeding.

36. **Multisectoral approach.** To combat the challenges of malnutrition in Ethiopia the Government has embarked on the second National Nutrition Programme (NNP II). The principles for implementation of the program include breaking the lifecycle and intergenerational transmission of malnutrition; stepping up public health interventions; addressing chronic and recurrent food insecurity; and engaging a large number of stakeholders including but not limited to Ministries of Health; Agriculture and Natural Resources; Education; Livestock and Fisheries; Water, Irrigation and Electricity; Finance and Economic Cooperation; Labor and Social Affairs; Women and Children Affairs.

37. The NNP II identifies the following gaps and hence focus areas for the program in the coming years:

- Implementing Comprehensive and Integrated Nutrition Services at community level;
- Improve the nutrition workforce capacity;

- Strengthen multi-sectoral coordination and linkages;
- Support nutrition sensitive interventions;
- Improving maternal and adolescent nutrition;
- Improve nutrition supply management; and
- Improve nutrition management information systems.

38. In addition, a situational analysis of the nutrition and contributing factors in Ethiopia undertaken by Tulane University, the Government of Ethiopia, the EU, and UNICEF proposes that to reduce malnutrition in Ethiopia policy and programming need to go beyond nutrition-specific interventions. Improving water and sanitation; improving women's literacy and girls' education; and increasing the access to health services are also needed. The study also recommends reinforcing equity-focused policies such as increasing household level income/assets; including behavior change communication practices; and increasing access to basic social services especially for adolescent girls and pregnant and lactating women.

39. In PSNP Woredas the experience shows that there is a need to strengthen the linkages between the PSNP program and health services and to improve the collaboration across all frontline service providers including HEWs, DAs, social workers and primary school teachers. It is also evident that the knowledge of frontline service providers on nutrition related factors is not adequate and more specific nutrition training is needed.

40. **Indicators selected for ESPES AF:** ESPES contribution to reduce malnutrition in Ethiopia will focus on a number of these gaps and priorities. Given the priority of ESPES to improve equity in basic service delivery the program will target the PSNP Woredas where levels of malnutrition are much higher than national averages and access to nutrition-relevant services is poor. Moreover, the program will complement other health sector interventions such as the World Bank SDS project by strengthening nutrition systems and improving access of poor households to essential health extension services.

41. The specific indicators covered by the ESPES nutrition DLI will therefore include: establishing Woreda-level coordination platforms for nutrition; ensuring adequate training and knowledge of frontline service providers (HEWs, DAs, social workers) on nutrition; and improving the contact of PSNP mothers (with children 0-23 months) with HEWs from the baseline of 33 percent in 2016. All three indicators focus on PSNP Woredas. In addition, the program will also include an action in the PAP so as to make it possible to track PSNP household status in nutrition information management systems on a regular basis.

### ***Agriculture***

42. More than 80 percent of the Ethiopian population still resides in rural areas, wherein the overwhelming majority depend on agriculture for their livelihood. The second generation of the country's GTP II, in a similar account to GTP I, renders increased focus toward improving agricultural production and productivity through expansion of agricultural extension delivery system. The plan consists of increasing the total number of female-headed rural household agricultural extension beneficiaries from 4.2 million to 5.3 million. At the center of this ambitious target is increasing the deployment of qualified DAs that promote new technologies and information to farm households.

43. However, several studies have shown that rural Ethiopian women farmers, as is the case for global women farmers) have less contact with agriculture DAs, less access to agricultural extension and farmer

trainings, and less access to irrigation and modern inputs.<sup>34</sup> And hence, their fields are 23 percent less productive than male farmers. Women also have less access to agricultural credit. This is partly due to the fact that the overwhelming majority of DAs that are entrusted to disseminate modern agricultural practices and provide extension services are male and they face cultural constraints in how they interact with female farmers. This reality demands promoting agricultural extension outreach to women farmers in rural Ethiopia. Increasing the number of female agriculture extension/DAs is, therefore, deemed necessary to enhance female farmers' agricultural extension service utilization. The ESPES AF will push toward increasing the proportion of female DAs in the agricultural extension service delivery system. It will also support the Government's ambitions to modernize the collection, analysis and utilization of agricultural information for policy making and program managements, with special attention given toward enabling the AgMISs and evaluation activities to produce information related to women farmers and other gender related issues. The support to AgMIS will be coordinated together with a modest support to the WaSH MIS (MoWI), which also provides training to rural water offices on collection of data on many agriculture-related activities including irrigation use and availability of rural WaSH services.

### *Citizen's engagement*

44. **The existing ESPES is devoted to enhancing and deepening the CE initiative which was initiated under the PBS projects and which aim at strengthening the demand for quality basic services for all.** These CE initiatives include three pillars: FTA, the GRM, and the SA program.

45. **FTA:** Building on achievements under PBS, a DLI was developed under ESPES PforR to help the deepening of the FTA initiative. Enhancing transparency of public budget and expenditure information and service delivery standards is in line with the Government's vision. The Government's five-year plan (GTP II) recognizes the contribution that was achieved through the FTA program. The budget and expenditure information disclosure and the awareness creation effort conducted in the past few years on public budget allocations has strengthened public participation in budget execution and enhanced transparency and accountability in PFM and the delivery of basic services. Budget transparency remains the core activity of the FTA program and will benefit from further development to more areas of the country.

46. To deepen the achievements under the FTA pillar and meet the public demand to have more voice in the budgeting process, a DLI that requires the Government to issues a *Pre-Budget Discussion Directive* that guides Woredas to conduct a structured discussion between citizen representatives and local authorities has been implemented under the current ESPES PforR. This discussion forum is intended to engage citizens with Woreda officials and identify and prioritize the respective basic service needs in their localities and use the outcome of such discussion during budget allocation by the Woreda council. Based on the directive, the ESPES DLI further required the implementation of pre-budget discussion in at least 15 percent of Woredas of the country with at least 25 percent of female participation. Reports show that this DLI target has been over achieved with 37 percent of Woredas and 46 percent female participation. Under the ESPES AF, the percentage of Woredas that conduct the pre-budget discussion forum will be scaled up to at least 75 percent of Woredas. The impact of the pre-budget discussion on the allocation of Woreda budget on basic services will be further assessed under the ESPES AF and included as an activity in the IPF component. So far, the FTA work undertaken under the PBS and ESPES programs focused on citizens' awareness creation and disclosure of budget and expenditure information at the Woreda level. The ESPES

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<sup>34</sup> World Bank. 2008. *Gender in agriculture sourcebook*. Agriculture and Rural Development. Washington, DC; Ragasa, C. 2013. Gender differences in access to extension services and agricultural productivity. *The Journal of Agricultural Education and Extension*, 19(5), pp.437-468; Aguilar, A., Carranza, E., Goldstein, M., Kilic, T. and Oseni, G. 2015. Decomposition of gender differentials in agricultural productivity in Ethiopia. *Agricultural Economics*, 46(3), pp.311-334.

AF would look into ways of expanding the FTA at the federal and regional levels. In this case, indicators and activities that would help to produce an FTA manual to be used at the federal institutions and regional levels will be included to advance the FTA initiative at all levels.

47. **GRM.** With respect to the GRM system strengthening, so far, ESPES has contributed to improving citizen access to redress mechanisms at Woreda levels. This has been done by including DLI targets that promote the assignment of GRM staff in 80 percent of six regions and one city-administration (Amhara, Tigray, SNNPR, Benishangul Gumuz, Oromia, Somali and Dire Dawa) and ensuring that these GRM structures have standardized OMs. Although the reporting time for the GRM component of the CE DLI is November, 2017, to date GRM offices are opened and functional in all 6 regions and Dire Dawa and at Woreda levels. The GRM OM is prepared, validated and disseminated. The ESPES AF will scale up the DLI and will increase the number of regions/city administrations that have assigned GRM officers to eleven. While keeping this activity and scaling it up, the ESPES AF would put emphasis on the opening and staffing of additional branches of the EIO in two of the emerging regions to improve the presence of the Federal level EIO in regions. In addition to strengthening the capacity of the EIO, the ESPES AF would give adequate attention to the capacity building of regional and Woreda GRM offices through its IPF component.

48. **SA.** The ESAP began as a pilot from 2008-2009 during the first phase of the PBS Project (P128891) to test a small range of SA tools, approaches and mechanisms. The objective of ESAP1 was, “strengthened use of SA tools, approaches and mechanisms by (a) citizens, (b) CSOs, (c) local government officials and (d) service providers as a means to make basic service delivery more effective, efficient, responsive and accountable”. Twelve national CSOs were selected to lead the implementation of pilot projects.

49. The ESAP2 followed, as part of PBS II and then PBS III. The *overall* objective was to strengthen the use of SA tools, approaches and mechanisms by (a) citizens and citizens’ groups, (b) CSOs, (c) local government officials and (d) service providers as a means to make basic service delivery more equitable, effective, efficient, responsive and accountable. The *specific* objectives of the program were: (a) public basic service providers deliver improved quality public basic services in education, health, agriculture, water and sanitation and rural roads responding to community and citizen needs; (b) citizens and citizen groups are empowered and increasingly demand better quality public basic service delivery; (c) citizens and citizen groups are aware of their responsibilities to plan, budget, implement and monitor public basic service delivery.

50. ESAP2, used structured SA tools such as community score cards, citizen report cards, participatory budgeting, gender responsive budgeting, and participatory tracking surveys - to undertake needs assessment and develop joint service delivery improvement actions plans around which interface (direct) meetings between service providers and service users are conducted. Implementation of the validated joint service delivery improvement actions plans are expected to make services more equitable, effective, efficient, responsive and accountable. These tools were used in 223 Woredas across all regions, roughly 25 percent of all woredas in Ethiopia. The application of these tools strengthens the capacity of both citizen groups and the Government service providers to work together. A total of 49 competitively selected CSOs (and over 50 sub-contracting CSOs), supported by a ‘Management Agency’ (an INGO) in partnership with the Government, facilitated the process from civic mobilization and awareness about entitlements to basic services and standards for those services, to needs assessment, interface meetings between citizen representatives and service providers, and creation of JAPs aimed at improving basic service delivery at the local level.

51. At the strategic leadership level, ESAP2 was led by a National Steering Committee (SC) chaired by the State Minister of MoFEC. The Steering Committee included representatives drawn from relevant government institutions, DPs and CSOs' Umbrella Organizations. The Steering Committee provided overall guidance and oversight to program implementation through quarterly meetings. Such a coordination mechanism will remain important but could evolve and expand to include, for example, representative from the ministries for Health, Education, Water and Sanitation, Rural Roads and Agriculture in addition to the Ministry of Civil Service and Human Resource Development (MCS&HRD). A DP-only technical group, the Transparency and Accountability Group (TAG) met monthly to discuss issues pertinent to and share information on ESAP2 but also on the other two sub-components of the PBS under the CE component: FTA and GRM.

52. The ESAP2 evolved into a Bridging Phase by incorporating innovations and extending the project closing date to minimize a possible gap between its implementation and effectiveness of a Successor Program. The series of ESAP programs have been financed through a World Bank-managed MDTF that receives funding from donors namely: EU, DFID, Irish Aid, Austria and KfW. The ESAP2 Bridging Phase initiated in 2016 ensures seamless transition to a Successor Program. The Bridging Phase prioritizes (a) consolidation of ongoing activities on the ground to deepen the practice and principles of SA while testing innovative approaches, especially related to sustainability and institutionalization; (b) fostering and enhancing SA dialogue at federal, regional and Woreda levels; and (c) enhancing an evidence base to feed into the Successor Program design and build a case for value-for-money. A design process for the Successor Program, or ESAP3, is nearing finalization in June 2017.

53. While the results of the independent *ESAP2 Impact Evaluation* are expected by July 2017, the *ESAP2 Internal Assessment* was completed in October, 2016. Key findings included: (a) increased awareness of community members and citizens groups on their rights and obligations; (b) increased Government responsiveness to citizen needs; (c) inclusion of vulnerable groups in service delivery assessment and articulation of their needs and priorities; (d) service provider and citizens dialogue and CE through interface meetings and JAPs leading to tangible service improvements; and (e) the role of CSOs as independent interlocutors and facilitators of the engagement process was a success.<sup>35</sup> Overall, ESAP2 has shown that it can positively contribute to establishing constructive dialogue between the Government and citizens leading to improvements in basic service delivery.<sup>36</sup> Establishment of functional SA committees that have largely outlived project implementation in their localities provided optimism that an effective SA system can be created in the Ethiopian context in the medium to long run. Nonetheless, during ESAP2 implementation, a number of challenges were experienced which include but are not limited to limited Woreda coverage, lack of concrete progress on building mechanisms for sustainability and institutionalization (including linkages with FTA, especially budget planning processes, and GRM), and gaps between demand and supply of inputs (that is, budget) to implement JAPs.<sup>37</sup> These challenges have implications on prospects for structured and systematic SA beyond project supported interventions.

54. **The current ESPES program focuses on building Government commitment to SA**, including the following three DLIs: (a) preparation of a rollout plan for SA which is operational in 223 Woredas (existing and new kebeles); (b) a road map for consolidating and scaling up SA validated and adopted by the Steering Committee; and (c) the roll-out plan for SA is operational in 300 Woredas, of which 77 are new Woredas. While the first DLI has been achieved, the remaining two DLIs are not yet due. However, it

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<sup>35</sup> ESAP Management Agency and Care Consulting. *Ethiopia PBS Social Accountability Program Internal Assessment*. October 2016. Addis Ababa.

<sup>36</sup> World Bank. *Mainstreaming Citizen Engagement in World Bank Group Operations in Ethiopia*. Draft Report. 6 September 2016.

<sup>37</sup> Anderson, S. *et al.* ESAP Successor Program Design Mission (ESAP3) Inception Report. 21 January 2017.

is expected that, given that the implementation of the ESAP 2 Bridging Phase is ongoing and the ESAP 3 design process is underway, both the remaining DLIs will be achieved.

55. **Against this background, ESPES AF will focus on deepening and expanding SA while taking additional and more lasting steps toward institutionalization and sustainability.** In line with the Ethiopia CPF target to operationalize SA in 500 Woredas, the ESPES AF will contribute to the scale up and operationalize SA in part of these Woredas through the IPF component consistent with the ESAP 3 project. Please refer to Annex 5 for a detailed description of ESPES AF IPF component support to SA. In addition to the IPF component, the ESPES AF will include targets under DLI 7 focused on supporting sustainability and institutionalization efforts of SA to ensure that SA activities are entrenched and sustained beyond ESAP 3 and are aligned with Government's institutional arrangements and strategies at the federal and sub-national Government levels. This will include (a) the development of a CE Framework which, based on public consultation process, will outline the desired theory of change for CE in the Ethiopian context; and (b) ensuring that at least 50 percent of JAPs<sup>38</sup> are implemented in 60 percent of SA Woredas by 2020.

56. **Overall, ESPES AF and ESAP 3 will be designed and implemented such that strong synergies will be built between both projects to adequately address supply and demand driven aspects of SA.** ESAP 3 is expected to be financed from a MDTF (with contributions anticipated from EU, Irish Aid, Austria, Sweden, DFID and USAID). ESAP 3 is currently under design and its timeline will be largely aligned to that of ESPES AF. ESAP 3 is expected to play an important role in generating best practices to enable an informed roll out of SA to new Woredas using ESPES AF resources. In so doing, ESAP 3 will help to build appropriate capacities for local CSOs umbrella networks, and provide a function of quality control and dissemination of best practices to inform scale-up. Implementation of ESPES AF will ensure that CSOs remain at the core of the SA process in Ethiopia, recognizing the important facilitation role that CSOs play.

#### **Data and statistics for development, M&E framework**

57. **The PDO and related results areas remain the same in the AF as in the original ESPES PforR.** The PDO is *to improve equitable access to basic services and strengthen accountability systems at the decentralized level*. The PDO RIs and intermediate indicators are listed in Annex 1 and linked to the below five Results Areas that frame the PDO:

- (a) Ensuring equitable access to basic services;
- (b) Enhancing CE and environmental and social management capacity;
- (c) Deepening fiduciary aspects of basic service delivery; and
- (d) Ensuring quality data access and results.

58. The results chains and 'theory of change' underpinning the results areas are described in the main text of the document.

#### **Block grant results monitoring procedures and capacity**

59. **Ethiopia has a long tradition of monitoring the inputs, outputs, and outcomes of the block grants.** As the cornerstone of development partners' engagement with the Government on service delivery, the PBS program 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

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<sup>38</sup> A JAP is a woreda level agreement between the local government and citizens on priority service improvements, which specifies key activities, responsible actors, and resource commitments.

delivery staff hired. In addition to this, it also constructed the monitoring architecture to collect and discuss results. There has also been intense oversight of block grant system results through Government's own efforts. The Government's five-year development agenda – the GTPII – is a results-oriented Government-implemented program that places a high priority on service delivery outcomes. It includes important results in each of the sectors supported by the block grant system.

60. **The semi-annual JRIS missions are critical for monitoring indicators of the IGFT program** (formerly PBS) and for the development partner funded programs that support IGFTs, the overall decentralization process, and basic service delivery. This included trends in sector spending and various sector indicators, indicators of progress regarding transparency and accountability as well as capacity at lower levels, and information on operational aspects. Various technical working groups have been created and are following and providing TA on specific themes such as governance, macro-economic developments, and PFM, in relation to basic service delivery at the local levels.

### **Monitoring and evaluation arrangements**

61. **Overall M&E arrangements for the AF remains the same as for the original ESPES program.** 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, MoANR and MoH will monitor indicators in the respective sectors, mainly using their sectorial MIS. These ministries, albeit each having long-standing MISs in place with its own nuance in approach and capacity, require a continued system strengthening investments. The AF will put more focused attention to capacity building of these systems at subnational levels. The Expenditure Management and Control Program within the MOFEC will also play an important role indicators PFM and Woreda benchmarking in this area. The OFAG will take the lead on the audit capacity building and follow up. For indicators related to SA activities, the Ethiopia SA Project manager will be responsible. Overall management and compilation of indicators will be handled through the COPCD in MOFEC. COPCD has had extensive experience coordinating with these various agencies in pulling together data.

62. **Throughout the project cycle a number of M&E activities are included in the program:**

- The semi-annual JRIS missions will continue during the ESPES. They will be organized by the SDS, in collaboration with COPCD. The secretariat will continue to provide its overall independent technical analysis of program support activities.
- Field missions will be undertaken at least 2 times a year to assess progress in regions and Woredas.
- DLI verification takes place every 6 months according to the scheduled developed in the main document usually just before JRIS missions. Lessons learned from the existing ESPES project show that the verification protocol and its process have not been clear enough to verifiers. It has been overly simplified, becoming a source of misunderstanding between sectors, MoFEC, and verifying agencies. In the AF, a detailed verification process including methodologies, definitions, and approaches will be prepared jointly between agencies, MoFEC and the World Bank. The application of robust verification methods by the verifier will be included as part of the results monitoring mechanism.
- PAP progress review and monitoring is scheduled every 6 months and should also take place before each JRIS mission. Lessons learned from the ESPES project indicate that regular monitoring and supervision around the PAP is critical and can boost the achievement and



monitoring of the DLIs. For this, regular review meetings will be held with the client on status of each activity under the PAP. Various technical working groups will also monitor the status of the PAP using their respective supervision mechanisms.

- Mid-term review will be scheduled around towards the second quarter of FY2020.
- Continuous dialogue and knowledge dissemination around program results through organizing and utilizing various platforms such as technical working group meetings, sector annual review meetings, and dissemination events of analytical and evaluation works.

### **Capacity requirements and areas for strengthening**

**63. Lessons learned from the existing ESPES operation including in the latest JRIS is that improving quality of data on the five basic service sector is of paramount importance to accurately measure progress.** There exist capacity constraints in several areas of M&E and statistics activities surrounding IGFTs:

- capacity of sectoral federal MIS offices to adequately assess, compile, and communicate with Woreda officials remains weak;
- a lack of a nuanced understanding by Woreda and zonal 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 at federal and subnational levels to utilize outputs of M&E data as inputs for planning;
- the capacity to implement or contract out and supervise assessments, studies, and surveys; and
- lack of reliable and recent population statistics.

**64. To address these shortcomings there will need to be extensive capacity building activities to be undertaken.** The AF will, through the PAP and the investment component, provide TA and resources to strengthen the capacity to collect and analyze quality data, and monitor and use results. At Woreda-level, officials should receive additional trainings on the rationale for the indicators they compile and send on to zonal offices. This enhanced understanding will improve their error detection abilities and give them a more nuanced understanding of the indicators they report. At federal-level, the MISs can be strengthened through both hardware and manpower improvements. In the MoH, for example, the disparate databases for the different health areas prevents utilizing the myriad of health data types to assist in better planning processes. Investing in hardware to compile these databases and train the relevant MIS staff in how to do this could yield impressive results. Similarly, raising awareness among decision makers regarding the value of M&E could better help them integrate findings into the planning of future work.

**65. In addition, the AF will support the development and implementation of a vital statistics system that systematically registers vital birth and death-related information across the country.** The added value of ESPES AF support to the vital statistics lies in promoting quality data collection for human development indicators (including ESPES AF DLIs) and sharing it with the CSA and other relevant agencies. Several review missions of sector support, PBS, ESPES, and other programs indicated that some age specific related indicators at Woreda levels were found to be error prone since they are measured using unofficial sources (such as Woreda level school completion rates, NERs, maternal mortality rate, and child

mortality rate). Moreover, population census projections are found to be a weak predictor of actual population size at Woreda levels.

66. **In 2012, the GoE has put forward a proclamation for the establishment of a national vital registration agency** that is entrusted to develop a system that officially registers and documents all births and death related information at kebele level across the country. Report from the National Vital Statistics agency indicates that, currently, the agency is implementing vital registration systems all over the country in all of the 18,506 kebeles. Expansion of the implementation of the system nationwide requires significant investments for printing of report cards, computerizing, and provision of training to lower level and federal staff. Such an investment is envisioned to come from both Government and development partners. A substantial amount of such supports comes from the Health PforR program. Specifically, this support is geared toward linking health facility information with VERA kebele offices and investment in a computerized system. The ESPES AF support complements this support by focusing on strengthening the analytical capacity of VERA staff at local levels to ensure better data recording; updating vital statistics recording forms; and enhancing the awareness and demand for vital statistics records of citizens.

67. **Finally, there is a need to make available updated population statistics.** The Second National Strategy for the Development of Statistics (NSDS-2) spans the period 2015/16-2019/2020 and aims to monitor the progress under the second GTP II. The specific objectives of the NSDS-2 are to meet the data requirements for GTP-2 monitoring and policy-making and to further build CSA capacity at organizational, human and physical level to produce and disseminate quality official statistics. The World Bank has been supporting the first NSDS through the Statistics for Results facility and the ESPES operation, CSA's score of the Statistical Capacity Indicator increased from 61 to 69 between 2014 and 2016.

68. **A key activity planned under the NSDS-2 is the implementation of the fourth PHC.** The PHC is a fundamental input for the proposed AF, as it provides key data for the distribution of block grants among the Regional States and provides the denominator for many of the sectoral indicators used to track the Program's progress (such as the number of children of a certain age in each Woreda to track education indicators). Currently, block grants and administrative enrolment and completion indicators are still based on projections from the 2007 PHC, which are outdated given the rapid socio-economic changes and increasing internal migration rates over the past decade. Given its crucial importance to the Program, the implementation of the PHC will be included under Results Area 4.

69. **The program's support for the census will be leveraged to make progress on issues of data dissemination and accessibility.** While CSA has made solid progress on data production and timeliness during the first NSDS, access to data remains complicated by cumbersome procedures. The third milestone of DLI 11 will therefore consist of making a sample of the census microdata publically available to users through the website. Concurrently, the TA component under the IPF will support CSA to make further progress on data production and organizational and human capacity, and will also support the gradual revision of data dissemination policies to facilitate access to statistical microdata.

## **Capacity assessment at federal and regional levels and implementation arrangements**

### ***Block grant system architecture***

70. **The institutional architecture of the block grant system at Woreda, region, and national level is the same as described in the original technical assessment for ESPES.** It is summarized below.

71. **The MoFEC is the implementing agency for the block grant system and also for the ESPES program,** given its overall responsibility for supporting financial flows from the federal to more decentralized levels and for ensuring that PFM systems work smoothly. Within MoFEC, the COPCD is

responsible for coordinating daily IGFT activities across the basic service ministries, Government bodies and sub-national Government entities.

72. **At the regional Government level, BoFEDs have similar responsibilities at the regional level as MoFEC has at the federal level.** BoFED responsibilities include: (a) receiving, consolidating, and transferring financial and expenditure reports from the WoFEDs to MoFEC; (b) receiving Woreda level plans for the basic service sectors and assisting Woredas in reconciling 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.

73. At local level, WoFEDs and Urban Administration Offices of Finance have similar responsibilities. 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 BoFEDs; and (d) reporting on a monthly basis on the actual use of block grants including basic services sub-program resources at local level and overall performance in relation to service delivery targets.

74. **Councils at regional, zonal Woreda and kebele levels also play a crucial role.** They: (a) provide general oversight of those sub-national Government institutions involved in the block grant system; (b) review and approve annual development plans and budgets; and (c) facilitate information sharing and harness the involvement of citizens in the planning, budgeting, and management of delivering basic services.

75. **The block grant system in Ethiopia provides incentives for Woreda and kebele officials to maintain and expand basic service delivery.** The decentralized nature of the system encourages local-level officials to provide services because they are held accountable to their constituents. Service providers are strictly accountable to local Governments for producing results. And in turn, local authorities are held accountable by the regional and federal Governments for delivering basic services and reaching the targets set in the GTP II. Teachers, health workers, and agricultural extension workers who deliver those services are recruited and managed by the Woredas. Local competition for the local 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.

### ***Institutional capacity assessment***

76. **The overall capacity of the decentralized IGFT and service delivery system remains robust.** As a result of the PBS series as well as the ESPEs program, capacity has improved, especially at the regional and Woreda level, for managing the IGFT program and to deliver basic services.

77. **However, experience to date shows that there is a need to strengthen the intersectoral collaboration between MOFEC and between the sectoral ministries.** MoFEC is currently deliberating how to develop an effective coordination mechanism for the program going forward. Moreover, the PforR activities expected to be undertaken by regional stakeholders need to be better developed and communicated with them including sufficient time and budget allocation to ensure that they can be implemented as planned.

### ***Implementation arrangements***

78. **The AF will rely on the same implementation arrangements as developed for the PBS and the original ESPEs.** MoFEC will continue as implementing agency and COPCD will be responsible for coordinating the day-to-day PforR activities across the basic service ministries, Government bodies, and

subnational entities and for ensuring compliance with joint legal agreements. Improvements in COPCD staffing and management since 2011 have demonstrated the willingness to tackle implementation challenges.

79. **The regional BoFEDs will continue to have responsibilities at the regional level similar to those that the MoFEC 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 AF and will help strengthen the overall system's capacity for ESPES implementation and follow-up. At the local level, the WoFEDs and Urban Administration Offices of Finance have responsibilities similar to those of the BoFEDs. Councils at the regional, zonal Woreda, and kebele levels provide general oversight of the PforR implementation.

80. **Emphasis will be placed on effective coordination mechanisms with sectors and regions.** 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 closely engaged to deliver respective DLIs. Given the experience to date, the AF will ensure that activities to be undertaken as part of DLIs and the PAP are developed and implemented in coordination with the various sectoral ministries and the regional stakeholders. For instance, several workshops will be undertaken in this regard.

## Conclusions

81. In Ethiopia's decentralized system, subnational Governments heavily rely on block grant transfers from the Federal Government to deliver the services that fall under their mandate. On average, block grant transfers account for about 80 percent of total regional level budgetary resources. Fifty-eight percent of Woreda spending goes to health, education, and agriculture. The main objective of the decentralized *Inter Governmental* block grant transfers system is to continue the provision of social services that help to achieve human development agenda of the country.

82. **The Woreda block grant program is hence an effective mechanism in expanding service delivery.** It is also supported by robust national accountability systems for CE, fiduciary management, ESMC, and quality data systems. 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.

83. The existing ESPES DLIs support has strengthened outcomes in human development areas; improved vertical and horizontal gender equity in the access and quality of services; improved governance and fiduciary system at the Woredas for managing basic services and related expenditures; and expanded CE and improved environmental and social safeguards in the delivery of services.

84. Despite the success, there is room for improvement especially in enhancing gender, socioeconomic, and geographic equity in access to quality services. Differences in service use and outcomes are also different by gender. Given these shortcomings and the realities of data availability, the ESPES AF will have a specific focus on improving gender and geographic equity of services. Another weakness that has been identified through the technical assessment and through the experience of ESPES and PBS so far is the need to improve the availability of utilities at service points. ESPES will monitor

85. **The technical assessment also established the critical importance of CE and other demand-side Woreda and kebele level awareness activities** to inform the citizens about the benefits that basic

services bring to them; their rights in terms of quality service standards; and the importance of using basic services to promote and protect their families' wellbeing and productivity. ESPES support to CE will therefore contribute to advancing the Government goal in this regard through variety of accountability and transparency instruments being implemented in growing number of Woredas and kebeles in the country.

86. **The assessment also highlights that improving quality of data on the five basic service sectors is of paramount importance to accurately measure progress on service delivery indicators.** Therefore, ESPES AF will continue to strengthen a number of data and statistics related areas including sectoral MISs, vital statistics registration, and the 2017 National Population and Household census. Overall M&E arrangements for the AF remain the same as for the original ESPES program. However, verification protocols and procedures need to be strengthened going forward.

87. **The overall capacity of the decentralized IGFT and service delivery system remains robust.** As a result of the PBS series as well as the ESPES program, capacity has improved, especially at the regional and Woreda level, for managing the IGFT program and to deliver basic services. However, experience to date shows that there is a need to strengthen the intersectoral collaboration between MOFEC and between the sectoral ministries. MOFEC is currently deliberating how to develop an effective coordination mechanism for the program going forward. In the AF, emphasis will be placed on effective coordination mechanisms with sectors and regions.

88. **In sum, the ESPES program takes forward the agenda of equitable access to quality basic services** thereby promoting the World Bank's goals on shared prosperity. The AF will use a multi-sector approach whereby soliciting collaboration across different sectors and global practices. The program continues the strategic approach to enhancing gender and geographic equity in service delivery. The AF will prioritize local-level financing for education, health and agriculture. The current PDO is still solid and valid for the AF and an additional PDO indicator related to intermediary outcomes has been added.

**Table 7.6. List of Woredas in bottom 20% on Penta 3 vaccination coverage, EFY2009, first 10 months**

Woreda Name	Region	First 10 months of 2010 coverage	Woreda Name	Region	First 10 months of 2010 coverage
Erbti	Afar	74%	Asagirt	Amhara	70%
Awora	Afar	74%	Tach Gayint	Amhara	68%
Telalake	Afar	68%	Menz Gera Midir	Amhara	68%
Gelealu	Afar	59%	Gondar Town	Amhara	65%
Bidu	Afar	58%	Ankober	Amhara	64%
Elidear	Afar	52%	Dangla Town	Amhara	63%
Lay Armachiho	Amhara	74%	Guagusa Shikuda	Amhara	63%
Burie Town	Amhara	74%	Debre Markos	Amhara	62%
Dessie Town	Amhara	73%	Kobo Town	Amhara	60%
Basona Werana	Amhara	73%	Lalibela Town	Amhara	59%
Gishe Rabel	Amhara	73%	Beyeda	Amhara	58%
Angolela Tera	Amhara	73%	Dangla Zuria	Amhara	51%
Fagita Lekoma	Amhara	73%	Hagere Mariam Kesem	Amhara	48%
Moretna Jiru	Amhara	72%	Berehet	Amhara	46%
Guangua	Amhara	72%	Woldia Town	Amhara	46%
Merhabete	Amhara	70%			

Woreda Name	Region	First 10 months of 2010 coverage
Debre Birhan Town	Amhara	46%
Minjar Shenkura	Amhara	43%
Gendewuha Town	Amhara	35%
Debre Tabor Town	Amhara	34%
Sekota Town	Amhara	28%
Asosa	Benishangul-Gumuz	72%
Pawe	Benishangul-Gumuz	61%
Wombera	Benishangul-Gumuz	57%
Addis Ketema	Dire Dawa	66%
Legehare	Dire Dawa	54%
Jaldessa	Dire Dawa	51%
Gendekore	Dire Dawa	45%
Dire Dawa	Dire Dawa	36%
Jor	Gambella	73%
Mengesh	Gambella	66%
Wantewa	Gambella	64%
Itang	Gambella	60%
Godere	Gambella	49%
Gambella Town	Gambella	35%
Akobo	Gambella	32%
Jikawo	Gambella	30%
Amir Nur	Harari	61%
Abubeker	Harari	30%
Yubdo	Oromia	73%
Mana Sibu	Oromia	73%
Nono	Oromia	72%
Jibat	Oromia	72%
Bedele Zuria	Oromia	72%
Dabo Hana	Oromia	71%
Abuna Gindeberet	Oromia	71%
Aira	Oromia	70%
Mieso	Oromia	70%
Meko	Oromia	69%
Ambo	Oromia	69%
Babila	Oromia	68%
Chora	Oromia	68%
Chalia	Oromia	68%
Meta	Oromia	68%
Bacho	Oromia	68%
Omo nada	Oromia	67%

Woreda Name	Region	First 10 months of 2010 coverage
Dambi Dollo	Oromia	67%
Dawe Serara	Oromia	67%
Bure	Oromia	66%
Chora botor	Oromia	66%
Toke Kutaye	Oromia	65%
Debre Libanos	Oromia	65%
Diga	Oromia	65%
Chiro Town	Oromia	65%
Arsi Negelle Rural	Oromia	65%
Uraga	Oromia	64%
Liban	Oromia	64%
Halu	Oromia	63%
Dugda Dawa	Oromia	63%
Gololcha	Oromia	63%
Dandi	Oromia	63%
Didessa	Oromia	62%
Bule Hora Town	Oromia	62%
Jeldu	Oromia	62%
Bedele Town	Oromia	60%
Robe Town	Oromia	59%
Bule Hora	Oromia	58%
Meta Robi	Oromia	58%
Ilu	Oromia	57%
Kercha	Oromia	56%
Negele Town	Oromia	55%
Dillo	Oromia	54%
Dorani	Oromia	54%
Hurumu	Oromia	54%
Dedo	Oromia	53%
Sodo Dachi	Oromia	53%
Ale	Oromia	51%
Saba Boru	Oromia	42%
Bishan Guracha	Oromia	42%
Nadjo Rural	Oromia	34%
Gimbi Town	Oromia	32%
Goba Town	Oromia	13%
Kumbi	Oromia	13%
Bensa Town	SNNP	74%
Andracha	SNNP	67%
Tercha	SNNP	64%
Mizan	SNNP	62%
Arba Minch Town	SNNP	62%

Woreda Name	Region	First 10 months of 2010 coverage
Masha	SNNP	48%
Basketo	SNNP	48%
Dilla Town	SNNP	45%
Yeki	SNNP	37%
Bonga	SNNP	17%
Teppi	SNNP	15%
Raso	Somali	74%
Qubi	Somali	74%
Awbare	Somali	72%
Dheka Suftu	Somali	70%
Dhuhun	Somali	69%
Dagahabur	Somali	67%
Aware	Somali	67%
Warder	Somali	65%
Hargele	Somali	63%
Moyale	Somali	61%
Filtu	Somali	61%
Dobowayn	Somali	60%
Babili	Somali	59%
Dembel	Somali	58%
Daror	Somali	57%
Meiso	Somali	56%
Daratole	Somali	55%
Fik	Somali	54%
Shaygosh	Somali	50%
Harshin	Somali	50%

Woreda Name	Region	First 10 months of 2010 coverage
East Imey	Somali	49%
Birqod	Somali	47%
Bare	Somali	44%
Salahad	Somali	37%
Dolo Ado	Somali	37%
Yocale	Somali	36%
Gunagado	Somali	34%
Garbo	Somali	31%
Bokh	Somali	27%
Marsin	Somali	20%
Dagah Madow	Somali	18%
Hamaro	Somali	17%
Sagag	Somali	14%
Klite Awlalo	Tigray	73%
Adwa Zuria	Tigray	73%
Axum Town	Tigray	72%
Hawzien	Tigray	67%
Abiy Adi Town	Tigray	65%
Adwa Town	Tigray	63%
Ganta Afeshum	Tigray	61%
Semean	Tigray	56%
Gulo Mekeda	Tigray	55%
Erob	Tigray	52%
Alemata Town	Tigray	45%
Maychew Town	Tigray	32%
Setit Humera	Tigray	26%

**Table 7.7. List of Woredas in bottom 20% used for on NER grades 5-8 and Girls Competition grade 8, ECY2008**

Woreda	Region	Girls' completion Completion Rate 2008
DALIFAGI-WEREDA	Afar	6%
DAWE-WEREDA	Afar	5%
HADELEALA-WEREDA	Afar	3%
SEMUROBINA-WEREDA	Afar	3%
TELELAK-WEREDA	Afar	11%
AWRA-WEREDA	Afar	9%
EWA-WEREDA	Afar	3%
GOLINA-WEREDA	Afar	9%

TERU-WEREDA	Afar	2%
YALO-WEREDA	Afar	3%
Adear	Afar	11%
AFAMBO-WEREDA	Afar	11%
CHEFRA-WEREDA	Afar	4%
DUBTI WEREDA	Afar	20%
ELIDAR-WEREDA	Afar	8%
KORI-WEREDA	Afar	2%
MILE-WEREDA	Afar	9%
BURE MODAYITU	Afar	3%
DULECHA-WEREDA	Afar	11%
AWASH FENTALE	Afar	18%

AFDERA-WEREDA	Afar	1%
BERAHILE-WEREDA	Afar	6%
Bidu	Afar	9%
DALOL-WEREDA	Afar	9%
ERABTI-WEREDA	Afar	1%
KONABA-WEREDA	Afar	8%
MEGALE-WEREDA	Afar	21%
FINOTE SELAM	Amhara	19%
Dodolaa	Oromia	22%
Nansaboo	Oromia	21%
Shaallaa	Oromia	12%
Siraaroo	Oromia	12%
Wondoo	Oromia	12%
Seeruu	Oromia	17%
Suudee	Oromia	20%
Daawee Sarar	Oromia	1%
Daawwee Qaachan	Oromia	10%
Dalloo Mannaa	Oromia	17%
Harannaa Bulluq	Oromia	16%
Laga Hidhaa	Oromia	11%
Maddaa Walaabuu	Oromia	11%
Sawweenaa	Oromia	12%
Abbayaa	Oromia	19%
Areeroo	Oromia	21%
West Yabello town	Oromia	21%
Bule Hora Town	Oromia	20%
Bulee Horaa	Oromia	20%
Dhaas	Oromia	20%
Dilloo	Oromia	20%
Dirree	Oromia	20%
Dugdaa Daawwaa	Oromia	12%
Yaaballoo	Oromia	9%
B/M/Sulultaa	Oromia	23%
Adoolaa	Oromia	23%
Annaa Sorraa	Oromia	12%
Booree	Oromia	12%
Girjaa	Oromia	11%
Gooroo Doolaa	Oromia	16%
Hambalaa Waamannaa	Oromia	16%
Liiban	Oromia	6%
Oddoo Shaakkisoo	Oromia	8%
Qarcaa	Oromia	16%
Sabbaa Boruu	Oromia	16%

Uraagaa	Oromia	17%
Waadaraa	Oromia	17%
B/M/Awudaay	Oromia	17%
B/M/Dadar	Oromia	17%
B/M/Haroomayaa	Oromia	17%
Baddannoo	Oromia	15%
Cinaaqsan	Oromia	14%
Giraawwaa	Oromia	19%
Gola Odaa	Oromia	11%
Gursum	Oromia	19%
Haraa Maayaa	Oromia	12%
Jaarsoo	Oromia	21%
Malkaa baloo	Oromia	21%
Mayyuu	Oromia	15%
Miidhagaa Tolaa	Oromia	12%
Qarsaa	Oromia	12%
Qumbii	Oromia	12%
Ancaar	Oromia	23%
Bookee	Oromia	9%
Bu/Mag/Ciroo	Oromia	16%
Burqaa Dhiintuu	Oromia	16%
Daaroo Labuu	Oromia	12%
Doobbaa	Oromia	21%
Gamachis	Oromia	13%
Gubbaa Qorichaa	Oromia	15%
Habroo	Oromia	18%
Hawwii Guddina	Oromia	18%
Masalaa	Oromia	18%
Mi'eessoo	Oromia	14%
Odaa Bultuum	Oromia	14%
Buree	Oromia	22%
Cawwaaqaa	Oromia	22%
Sadeen Sooddoo	Oromia	22%
Meettaa Roobii	Oromia	22%
Bero	SNNP	18%
Menit Goldya	SNNP	17%
Menit Shasha	SNNP	8%
Surma	SNNP	2%
Bena Tsemay	SNNP	20%
Dasenech	SNNP	4%
Hamer	SNNP	5%
Jinka Town Ad.	SNNP	5%
Nyangatom	SNNP	7%



Hawela Tula town	SNNP	20%
Adyo	SNNP	20%
Afdam	Somali	3%
Araarso	Somali	4%
Aware	Somali	4%
Ayishaca	Somali	5%
Babile	Somali	21%
Barey	Somali	18%
Birqood	Somali	4%
Bokh	Somali	15%
Ceelwayne	Somali	3%
Daroor	Somali	4%
Dhakaasuftu	Somali	5%
Dhanan	Somali	20%
Dhegah Buur	Somali	4%
Dhegah Buur Council	Somali	9%
Dhegah Madow	Somali	9%
Dhuxun	Somali	16%
Feerfeer	Somali	14%
Fiiq	Somali	7%
Filtu	Somali	8%
Garbo	Somali	3%
Gashamo	Somali	11%
Godey Council	Somali	21%
Godey wereda	Somali	21%
Goljano	Somali	3%
Gooro Bagagsa	Somali	12%
Gunagado	Somali	5%
Hargeelle	Somali	9%
Harshin	Somali	13%
Hudat	Somali	15%
Iimey Bari(E/Emey)	Somali	7%
Iimey Galbeed(W/imey)	Somali	9%
Lagahidda	Somali	13%
M/Muluqe	Somali	16%
Marsin	Somali	5%
Mi'eso	Somali	15%
Moyale	Somali	3%
Mubaarak	Somali	16%
Qabribayah	Somali	6%
Qabridahar	Somali	5%
Qabridahar Council	Somali	5%
Qallaafu	Somali	16%

Qubi	Somali	16%
Raaso	Somali	15%
Saggg	Somali	8%
Salaxaad	Somali	21%
Sheygoosh	Somali	12%
Shilabo	Somali	15%
Shinniile woreda	Somali	18%
Xamaro	Somali	3%
Yoocaale	Somali	5%

## **Annex 8: Fiduciary Systems Assessment – Addendum**

1. An Incremental IFA of program fiduciary systems for the proposed AF – ESPES Program was carried out on Federal, Regional and Local Government entities that will implement the ESPES program consistent with Operational Policy/ World Bank Procedure (OP/BP) 9.00, Program-for-Results Financing. The objective of the proposed program is to improve equitable access to basic services and strengthen accountability systems at decentralized level. The Government program supported by this operation will be the block grants to Woredas.
2. The IFA used the results of the 2014 PEFA reports that covered the Federal Government and six regions, the findings of the Continuous Audits (CA) covered 609 Woredas in the last nine quarters (Q1-Q4-EFY 2007, 2008 and Q1, EFY2009), the result of the Woreda Public Financial Management Benchmarking Rating which covered all Woredas, the follow up of PAPs, the reports of recent FM assessments and supervisions carried out in regions, the findings contained in the Annual Audit reports of the Federal Auditor General that are presented to Parliament and PBS III Project Independent Procurement Audit Findings.. For this AF, field work was conducted at a sample Regions and Woredas located across the country and teams of FM, procurement and governance experts travelled to the sample Regions and Woredas from January to February 2017. The review assessed FM, procurement system rules and procedures and their application, including oversight mechanisms at the program implementing entities as well as F&C and compliant handling mechanisms. Findings and lessons learnt in current operation were also considered.
3. 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 World 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.

### **Financial Management**

4. On the basis of the assessment which has drawn results or inputs from the 2014 PEFA, the results of the Continuous Audit reports starting from EFY2007, the 2016 Woreda PFM benchmarking exercise, the lessons of the current operations of ESPES and PBS including the FM supervisions conducted for these operations, and the results of the selected sample region and Woredas visits conducted for this AF, the following key findings/performance FM issues and risks are detailed below:
5. **Planning and Budgeting.** There continues to be well-functioning planning and budgeting system. Although the timeliness of budget proclamation, notification, breaking down and recording at the visited Woredas have been improved, further improvement is needed as delay of budget notification to sector offices and recording budget in IBEX were noted at some of the visited Woredas. In addition, the budget control is reasonable but a majority of the visited Woredas were using manual budget ledger to control expenditure and commitments instead of the budget control module of the IBEX. Lack of adequate skill on the system and insufficient number of computer hardware were the reasons for using the manual control. The manual control is time-consuming and may generate errors.
6. Budget execution is encouraging at the national, regional and Woreda levels. Budget Trend shows that the annual total budget and its execution in the regions and Woredas has increased in absolute terms over the past three years. However, the Woredas' capital spending was below 30 percent in all regions, and particularly low in Oromia, Gambella and Benshangul Gumuz in the past three years. The MDG (SDG)

capital budget spending is accounted for at bureau level. Major portion of the recurrent spending in the woredas is attributed to salaries. The portion of basic services sectors spending at woredas varies from region to region. In almost all woredas the portion of the total spending at basic services sectors was above 55 percent of the total woredas' budget. In the basic service sectors, portion of the education sector spending was high in the past three years followed by agriculture and health.

7. **Revenue.** There is a lot of progress on Revenue Administration. However, some areas require attention particularly on capacity and connectivity issues. Regional revenue collection has also improved in absolute terms. However, compared to their revenue collection plans they have not performed well and the trend is decreasing which indicates the need for better planning. In regards to financing expenditures from own sources, except Gambella region, the other regions collected own source of revenue above their budget. For the majority of the regions, own source of revenue covered only about 30 percent of the total annual expenditure.

8. **Transparency.** Focal persons are available at the regional level to follow the FTA activities in Woredas and the region itself. At all visited Woredas, annual budget as well as quarterly actual expenditures were posted on public notices where the community can see. In addition, various mechanisms like SMS, brochures, Mini media, TV and Radio broadcasting are used to disclose fiscal information. However, posting of audit reports has not yet been started at the majority of Woredas. Disclosing regions' fiscal information (annual budget, expenditure and consolidated audit report) is also not satisfactory. BoFEDs in Amhara, SNNPR, Tigray and Oromia have developed websites. Regions annual budget for EFY2009 have been disclosed on the website at Amhara and SNNPR but only up to EFY2009 in Oromia and no budget disclosed in Tigray. OFAGs at Amhara and SNNPR have posted consolidated audit reports (Amhara for EFY2006 and SNNPR for EFY2001). This is encouraging but needs to be updated. Other regions have not started or discontinued disclosing fiscal information on the website.

9. **Treasury management and fund flow.** The System of treasury management and flow of funds are robust. Sector bureaus in region use Z accounts (zero balance accounts) which are opened by BoFED in Commercial Bank of Ethiopia (CBE). BoFED sets a monthly cash withdrawal ceiling for each BI based on their monthly cash requirements, as derived from their cash flow forecasts. BIs effect payments from Z account to the extent of the ceiling. CBE clears the balance from Z accounts against BoFED Central Treasury Account (CTA) at CBE on a daily basis. This arrangement represents the Treasury Single Account (TSA). The system enhances the treasury management control. Woredas and zones use single account whereby one bank account is maintained for all BIs'. The practice improves the cash management system and saves resources and accountant time by reducing number of unnecessary records and report producing otherwise required. The federal Government uses an allocation formula approved by the parliament to distribute block grants to regions. Regions also use formulas to allocate block grants to Woredas. Subsidy is released in a timely manner from Federal to regions and in turn to Woredas. Therefore, the predictability of funds is satisfactory.

10. **Accounting and financial reporting.** There continues to be strong accounting and reporting systems in the country. IBEX roll out rate across the region is satisfactory. Currently IBEX is running in stand-alone mode at majority of Woredas and sector bureaus with few remaining due to power problems. Connection of Woredas and sector bureaus to BoFED server is lagging. Availability of sufficient computer hardware and skilled manpower are the main bottlenecks preventing full use of IBEX. At the visited Woredas transactions recording in the IBEX was up to date. Subsidiary ledgers for receivable and payables have been maintained. However, aging analysis for the balances was not performed at most of the visited Woredas. Zones and Woredas use the pool system for FM activities. Finance related proclamations, regulations, directives, guidelines and working manuals are available in most Woredas. The pool system is working but needs thorough review to assess its gaps. The system has improved the efficiency and effectiveness but staff at the visited Woreda Finance Offices noted challenges in terms of workload and

incentives. In regards to reporting, the timeliness of reports has significantly improved but quality remains perfectible. Visited BoFEDs prepared check lists to test the quality of Woredas and sector bureaus' reports when submitted. This practice helps improving the quality of reports but a lot of effort is still required to improve it further.

11. There is no backlog for consolidated account at all regions. Except Amhara and Gambella regions, the others have closed the EFY2008 consolidated account and submitted to their respective OFAGs and the two regions are finalizing closing. The EFY2008 consolidated account of Dire Dawa Administration was audited and the report was issued. Except for three regions (Amhara, Afar and Gambella), the consolidated accounts for EFY2008 were under audit. Audit reports for the consolidated account for EFY2007 were issued for all regions except Amhara. For the latter, the audit work was completed but report was pending.

12. **Internal control.** Internal control procedures are well embedded in financial proclamation, regulation and various directives and manuals. Key internal control assessment summary issues include:

- (a) **Non-Salary payment controls.** The FM system at the entities visited has sufficient controls to ensure authorization, recording and custody controls. However, repetitive findings were noted on Expenditures/payments relating to misclassification/ coding and posting errors and most importantly failures to properly support payments; in regards to *Cash and Bank management*: The continuous audit findings and the Woreda PFM Benchmark rating revealed that a number of Woredas covered by the audit did not prepare monthly bank reconciliation and did not conduct regular cash count.
- (b) **Salary (Payroll) Controls.** There are robust controls on payroll. However, in most places the monthly payroll is processed on MS-Excel. To enhance the accuracy of the payroll process it is recommended to develop and install payroll software which integrates the payroll system with human resources data base, across all Woredas.
- (c) **Property management.** The assessment revealed weak property management control. Proper fixed asset register which contains the necessary information for individual fixed asset items (date of purchase, cost, location, identification number) has not been maintained. Fixed asset counts are not done in most places and if so done balance is not reconciled with the records. Also, stock cards were not in use to control the movement of stock items. Rather, a register books for all items is used but not up-to-date. Use of inventory system software is a necessary to properly handle the property management. Currently two regions (Tigray and Somali) developed and implemented the inventory system software.
- (d) **Receivables and Payables.** One of the repeated control weaknesses observed is the Receivables/Payables balances findings which are attributed to failures to clear on a timely basis the outstanding receivables and payables, subsidiary ledgers were not maintained for receivable and payable balances.

13. **Internal audit.** The internal audit and inspection core process at BoFEDs is responsible for capacity building of internal auditors at the regions and follow up of internal audit reports (both bureaus and Woredas). In each BI, at region level, there is internal audit unit. At Woreda level the internal audit service is given at pool level. Audit committee on sample Woredas was established and functional at all regions. At each visited Woredas, the assessment team noted there was an internal audit unit at the pool. The internal audit unit at the pool is accountable to the head of WoFED. The internal auditors prepare annual plan. They also prepare quarterly reports and submit to the Office head and copy to ZoFED/BoFED internal audit and inspection unit. The assessment team also noted that at each visited Woredas internal audit manual are available for reference. Internal audit is an area that is generally considered to be the

weakest link in the PFM system. The weaknesses found include quantitative and qualitative staffing problems, coupled with a high staff turnover. This is also caused by a poor working environment, lack of independence and low salaries. This explains that the audit coverage of the pool accounts at most of the visited Woredas was not satisfactory as the auditors spend more time on health centers visits, school audits and some investigation audits. Due to lack of the appropriate skills, the internal auditors mostly do not perform system and risk based audit but focus on traditional audit-vouching (concentrating on per diem payments and cash shortage). Internal auditors at the majority visited Woredas had no access to IBEX and depend on finance officers to obtain print out reports. This area needs capacity building and attention from management to make the necessary progress.

14. **External audit and oversight.** OFAGs are the external auditors of all BIs in their respective regions. OFAGs present the consolidated audit report of the region to their respective regional council. The financial audit coverage of OFAGs in terms of number of entities for the past five years show increment from year to year but the trend decreased in EFY2008 for Oromia, Benshangul Gumuz, Gambella, Dire Dawa and Harari. Shortage of operating budget and manpower are bottlenecks to improve the coverage further. Above 10 percent of the posts were vacant at the visited OFAGs. OFAGs do some performance audit but the coverage is not yet satisfactory. The performance audit needs high skilled manpower in various disciplines and adequate operating costs. There is delay in presenting the consolidated audit report presented by OFAGs to council especially in Amhara, SNNPR, Tigray, Benshangul and Dire Dawa. Delaying in presenting consolidated audit report to the council would have impact to take timely action on audit findings. In addition, Continuous audits are being carried out quarterly by OFAG. Regions visited have assigned internal auditor and COPCD coordinators to follow on continuous audit issues. Feedback of action taken on audit findings has been submitted to MoFEC by all visited regions, which shows good progress. However, despite these, the rectification of audit findings remains very low as evidenced by subsequent continuous audit reports. This major challenge indicates systemic problems like staff turnover, poor follow up of audit findings, commitment and accountability issues. OFAGs signed MoUs with five bodies (Region Council, BoFED, Office of the President, Ethics & Anticorruption Commission and Justice Bureau) to expedite the actions to be taken on major audit findings. The collaboration could improve the rectification of audit findings. In addition, the amended Proclamation at Federal level have clearly included provisions of penalties for failures to rectify audit findings. The adoption of regions of this amendment could also create legal platform to address commitment and accountability issues. The oversight role by the budget and finance standing committee of regional /Woreda councils is encouraging but there is capacity limitation especially at Woreda level. The standing committee in all regions (both region and Woreda) needs regular capacity building trainings.

15. **Staffing and Infrastructure.** The assessment team noted that trainings on budget, accounting, IBEX, property management and internal audit were provided to finance officers and internal auditors. However, in view of the staff capacity and turnover, the trainings provided were not adequate. Finance officers at the visited Woredas finance pool complained of low salary scale compared to the workload. In addition, at the visited Woredas the assessment team noted that there were vacant posts compared to the structure. Existence of vacant posts may create workload and dissatisfaction on the existing employees, which in turn brings risk of reducing quality of work and timely reporting. The assessment team noted that the availability of computer hardware varies from Woreda to Woreda. At some Woredas, all finance officers were provided with computer hardware and operate IBEX. At some Woredas there was shortage of computer hardware and also the available computers were too old to run the upgraded version of IBEX properly.

## **Procurement**

16. **The Program finance will be channeled to local level through federal and regional block grant system with the objective to improve equitable access to basic services and strengthen accountability**

**system at decentralized level.** Improving access to basic services necessitates acquiring basic service inputs for services such as water supply, schools, health posts, agricultural inputs, roads and so on, through procurement process at the decentralized level. Therefore, it is important to understand 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.

17. **Procurement expenditure.** Based on IBEX data collected from all the visited regions, in the last two years, on average close to half of the regional budget was spent through procurement. The average procurement expenditure in EFY2007 for all of the visited regions was ETB 6.4 Billion which is 50 percent of the average regional total expenditure (12.8 Billion Birr). The share of Woreda level procurement expenditure against budget has continued to grow steadily. The average annual procurement expenditure of all Woredas in the visited regions has reached 28 percent of the total Woreda budget in 2016 (EFY2008) as compared to the 22 percent average share in 2014. This shows that the share of procurement against budget at Woreda level is increasing at an average of more than 12 percent annually.

18. **The largest share of procurement at regional level is being undertaken by sector offices.** According to the IBEX data collected from the visited regions, procurement at sectors offices consumes, on average, more than 30 percent of the total regional budget. In the basic Service Sectors (Agriculture, Education and Health), procurement expenditure has a share of 70 percent of the total expenditure in the sectors. The procurement share of the total expenditure continued to grow in 2008EFY despite the decline in total spending in the three sectors. The share even is much higher reaching 85 percent in the biggest regions like Oromia and SNNPR. The main procurement categories of the sectors include construction of service facilities (schools, health centers,) and major supplies like fertilizers, books, pharmaceuticals and medical equipment and so on which are critical inputs for basic service delivery at local level. Hence, the importance of procurement in basic service sectors is not only due to the significant share of procurement expenditure but also the importance of the procurement in the basic service delivery and attainment of program objectives.

19. **Legal framework and Public procurement regulatory bodies.** All nine regional states and two city administrations have enacted their procurement proclamations based on Federal Procurement Agency template. All have established procurement regulatory units, though at various degrees of independence. The regulatory units have in turn issued respective procurement directives. These documents govern the procurement implementation at all levels of the regional structure including Woredas. The proclamations establish procurement oversight responsibility; outline the procurement organizational structure, procurement methods and procedures, complaint handling procedure and so on. Since the last assessment, Tigray and Benshangul Gumuz regional states have revised their procurement proclamations. Tigray region enacted a new Procurement and Property Administration Proclamation No. 174/2007 which has the following key change “*Bureau of Planning and Finance (BoPF) is mandated to report to the regional Government on public bodies who fail to rectify recurrent procurement audit findings and Bid Endorsing Committee and Complaint Handling Board was established in the procurement structure.*”

20. **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 regional procurement proclamation, directive and procurement related guideline to regional bureau and Woredas; (b) to carry out regional procurement audit to ensure the 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.

21. **In addition to the regional proclamations and directives, procurement at Woreda level is governed by the Pool Manual which provides mandate and procedures for the WoFEDs to**

**consolidate requirements at local level and procure in bulk through competitive methods.** The Pool Manual was recently revised and disseminated to 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 to improve Woreda procurement system, the Government has initiated an activity to prepare and provide simplified procurement directive and procedure that will be applicable at Woreda level. To this effect, a consultant was hired to undertake Woreda procurement gap analysis and a simplified directive and procedures is prepared which currently is under legal review.

22. **Regional regulatory bodies.** The procurement organization in all regions follow the framework set at the federal level which separates roles and responsibilities between the regulatory oversight and procuring entities. But structure has not been uniform across all regions.

23. **The procurement regulatory units have various responsibilities including procurement oversight, performance monitoring, capacity building, procurement audit, complaint handling and procurement policy advisory role to the respective Regional Government.** As noted in the previous assessment, the regulatory units have different organizational structure, capacity and level of relative independence. In SNNPR and Gambella Regions, the regulatory units are organized as semi-independent agencies (Office in Gambella) which are led by a General Director appointed by the respective regional council. Other regions organized procurement regulatory bodies as a Department/ Process or Unit under BoFED which has continued to raise concern on the relative independence and capacity of the regulatory functions in delivering its responsibilities.

24. **In terms of staffing, the regulatory units have variations particularly when staff size is compared against the size of the workload in each region.** For instance, the regulatory body in Oromia is responsible for procurement oversight of around 374 public bodies but has only 9 employees (including 1 contract employee) while the Procurement and Property Administration Office in Gambella region has 14 staffs covering 77 public bodies while the Agency in SNNPR has 20 employees covering 229 public bodies. Hence, a staff in Oromia regulatory unit is required to cover a workload which is eightfold more than a staff working in the regulatory office in Gambella region and threefold more as compared to staff in SNNPR. Or a staff in Gambella region is responsible to regulate and monitor a procurement package amounting to 71 million Birr while the same staff in Oromia is expected to monitor 3.8 Billion Birr procurement package.

25. **The other key factor affecting procurement regulatory performance is the amount and accessibility of budget allocated to the regulatory units.** In the previous assessment, the budget allocation particularly the operational and training budget was found to be inadequate in discharging responsibilities and hence improving budget allocation was found to be imperative. In some of the visited regions, positive trends on budget allocation have been observed in the last three years. The amount of budget allocated for the regulatory units in SNNPR, Tigray, Gambella and Somali regional states have shown steady increment with an average yearly increment surpassing 30 percent.

26. **On the contrary, it was not even possible to determine the amount of budget allocated for the procurement regulatory unit in Oromia, Amhara and Benshangul Gumuz which has no dedicated cost center.** The regulatory units in these regions use the administrative pool budget allocated under BoFED that they can only access on case by cases basis, after approval from the BoFED Head. Hence, unlike the other regions, yearly action plans of the regulatory units in Oromia, Amhara and Benshangul Gumuz have not been supported by committed budget.

27. **Procurement Organization in Sector Offices.** Procurement responsibility in Sector offices is generally shared among the procurement team, Bid Endorsing Committee and the Bureau

Head/management. However, specific procurement organizational structure shows slight difference from region to region.

28. **In Oromia, procurement is organized as a team under Procurement and Finance Process which reports to the respective bureau heads.** In SNNPR and Tigray, procurement is organized under Procurement, Finance and Property Administration Support Process as a pool of experts reporting to the process owner. Given that the “Process Owner” has authority in passing procurement decisions, the arrangement undermines internal control and segregation of procurement responsibilities. Besides, there is no apparent reason why procurement operation and staffs were left without close management supervision and guidance.

29. **In accordance with the respective regional procurement proclamations, a Bid Endorsing Committee with members from the different department of the Bureau was formed in each sector Bureaus.** The Bid Endorsing Committee is responsible to review and approve procurement documents which is a recent and positive development exhibited across regions, sectors and Woredas.

30. **However, in some regions procurement of “Works or capital projects” follow different organizational arrangement and decision structure.** In Tigray Region, procurement of Works (except for procurement related to Bureau of Water Resource) is processed centrally under the Bureau of Construction, Road and Transport (BCRT). In Oromia, the regional BoFED issued a circular in which procurement of “capital projects” are processed by a technical committee organized under the respective bureau head which was implemented in some of the visited basic service bureaus. Given that the volume of procurement under “capital projects” are significant and complex, it will be appropriate to ensure that there is sufficient level of procurement skill and capacity in processing capital projects.

31. **It was noted that in all the visited regions, the procurement organizational structure and staffing level of regional sector offices is almost similar or slightly varies from the Woreda level organization and staffing level despite the huge variance in volume and complexity of the procurement activities undertaken at the two levels of Government structure.** For instance, the Agriculture sector in SNNPR had annual procurement volume of more than ETB 147 million in 2008 EFY which is 12 times higher than the procurement undertaken in Halaba Woreda during the same period. But the two units have equal number of procurement staffs both in terms of approved staff plan positions (5) and existing number of procurement staffs (4).

32. **Moreover, due to lack of enforced career ladder and job specification that facilitates progression of procurement staffs within the procurement team, procurement positions continue to be filled by staffs from other work units with no experience and training on procurement.** For instance, in SNNPR (Agriculture Bureau) 75 percent and in Halaba Woreda 100 percent of the existing procurement staff are recently promoted from other work units. Similar experiences were also observed in the other visited regions and offices. The practice has huge impact on the quality of procurement staff and procurement performance and ultimately on meeting development objective. According to PBS III Independent Procurement Audit Report (2016), of 27 audited public bodies at federal, regional and Woreda level, only 2 public bodies had staff qualified in procurement implying that procurement units in more than 92 percent of the public bodies are run by staff without procurement qualification.

33. **Procurement Organization at Woreda Level.** Procurement at the Woreda level is organized in a pool system in which the WoFED consolidate requirements of the sector offices and process procurement centrally. Besides, a Bid Endorsing Committee was established at each Woreda finance office. The Bid Endorsing Committee is responsible to review and approve Procurement decisions for all contracts except small value procurements which are approved by the WoFED Head or his/her delegate.



34. **In some regions like Oromia, procurement of capital projects is processed using a committee established under the Woreda Administration.** In SNNPR it is processed by the procurement team in collaboration with the requesting sector office while in Tigray by the Woreda Office of Construction and Road Transport. Given that capital projects take the largest share of the budget, it requires closer management attention and focus. It is also essential to ensure that there is sufficient procurement capacity and structure which upholds the basic principles in public procurement.

35. **The pool structure is managed by the pool manual which was originated from MoFEC and adopted by each region.** MoFEC revised the pool manual which, among other things, revised the organizational structure and staffing requirement for all functions in the pool system including procurement. However, implementation particularly the organizational structure has not been consistent with the proposed structure in the revised manual across all regions. In regions like SNNPR, Somali, Benshangul Gumuz and Gambella regions, a dedicated procurement case team managed by a coordinator was established as suggested in the revised manual. But differences have been observed in the other regions. For instance, in Oromia, procurement was organized in one team with property administration while in Tigray procurement was organized as a pool of experts instead of a team.

36. **Procurement Audit.** As one of the core responsibilities of the regulatory units, the assessment has noted that generally procurement audit has been undertaken on a regular basis guided by audit checklist adopted by each region. However, the audit coverage of all regions has been low, and in most cases, shows a declining trend. As indicated in the Table 8.1, the average audit coverage in 2008 EFY was 10 percent as compared to the 11 percent coverage in the preceding year. In 2008EFY, Regions like Amhara and Tigray had below 10 percent audit coverage while the coverage in Gambella was nil. Considering the commitment on ESPES program, Tigray had covered more than 15 percent of the Woredas while the coverage in all the other regions (where disaggregated data was provided) was below the agreed target in the DLI.

**Table 8.1. Procurement Audit Coverage in EFY2007 and EFY2008**

Region	2007EFY		2008EFY	
	Number of public Bodies audited	% age of coverage	# of public Bodies audited	% age of coverage
Oromia	45	12	43	12
Amhara	8	3	18	7
SNNPR	40	18	43	19
Tigray	22	12	14	7
Somali	13	9	18	12
BG	11	11	13	13
Gambella	7	9	0	0
Average		11		10

37. **Except in the Procurement and Property Administration Office in Gambella, all the other visited regions don't have a dedicated procurement audit team.** Hence, it is unclear how regular procurement audit can be planned and delivered. In some cases, procurement audit has been undertaken by borrowing staff from other departments which could affect the quality of the audit and the credibility of the procurement audit system.

38. **Furthermore, the audit reports are not publicized and have limited circulation between the auditee and the BoFED and there is no practice in communicating the report to the wider public and regional administration.** Hence, the incentive in addressing audit findings and working on the recommendations is limited. The provision in the newly amended procurement proclamation of Tigray

region which requires BoFED to report to the regional council on public bodies who fail to address audit findings is a positive development that should be adopted and expanded by the other regions.

39. **Procurement Complaint Handling.** At federal level, complaint management follows two tiers structure sharing responsibilities between public bodies and Complaint Handling Board (CHB). At the public bodies' level, the head of the public body, who is expected not to involve in procurement decisions, is responsible to review and resolve complaints. Any complaint which cannot be addressed at the public bodies' level, can be lodged to the CHB which has members representing the Government and the private sector in which the agency serves as "Secretary" to the Board.

40. **In all of the visited regions (except Oromia and Amhara), similar compliant handling mechanism and decision structure was observed which, among other things, shares responsibility between public bodies and the quasi-independent CHB with slight differences on procedures.** While there are areas that could be improved to make the system more impartial (particularly related with the reporting structure, number and composition of members of the CHB, enforcement of decisions), the involvement of the private sector in the reviewing procedure increases the level of confidence and credibility on the complaint handling mechanism and the procurement system in general. On the contrary, procurement complaint in Oromia and Amhara Regions is handled solely by the public body and BoFED with no involvement of the private sector which has continued to undermine the principle of impartiality.

41. **The revised pool manual requires the Woreda Council to establish an Independent Complaint Handling Body which is supposed to review complaints not resolved at the WoFED level.** However, implementation has not been uniform in all of the visited regions. In some regions, the Woreda council (Somali, Gambella and Benshangul Gumuz) established the complaint handling body as per the provision in the revised manual. In the Woredas of the other regions (Oromia, Tigray and SNNPR), complaint of aggrieved bidders, beyond the WoFED Head, can only be entertained by the complaint handling structure established at regional level which might be inconvenient and restrictive for local level bidders.

42. **Moreover, establishing a complaint handling system at Woreda level is also one of the indicators (Indicator 13) agreed in the Woreda PFM Benchmark Rating System.** In view of these, it would be important to decentralize the structure and establish a Complaint Handling mechanism that could impartially review complaints which couldn't be resolved at the WoFED level. In addition to establishing appropriate procurement complaint handling mechanism at Woreda level, it is also appropriate to create awareness and build confidence of the business community to use the system.

43. **The performance of the compliant handling system varies from region to region.** In some regions like Somali and Benshangul Gumuz regions, very few number of complaints were received and handled, 1 and 4 respectively. On the contrary, other regions like Oromia and Tigray region handled large number of complaints, 28 and 59 respectively (in 2008 EFY) which shows increasing trend as compared to the complaints received and handled in 2007 EFY.

44. **Implementation of Key Procurement Performance Indicators (KPIs).** The implementation of the KPIs in the selected regions and sectors is started and is progressing well. In all of the pilot regions (Oromia, Amhara, SNNPR and Tigray), the KPI guideline and data collection tool have been shared to the sector bureaus (Agriculture, Education and Health) and trainings to the procurement officers were provided. Some of the regions like Oromia and SNNPR assigned focal persons from the regulatory offices and provided hand holding support during the data collection process. It was further observed that, in some regions like Oromia and Amhara, the rollout of the KPI implementation is on progress to cover other sector offices and WoFEDs (Oromia) which shows the commitment and interest of the regional Government in measuring and improving procurement performance at all levels.

45. **All of the pilot regions collected data on procurements processed during the EFY2008 and reports were sent to the Agency for further analysis.** Some of the sectors have also started collecting data on procurement activities under process in the 2009EFY. However, the status of data collection has not been uniform across all the regions and sector offices in specific regions. Because the system is new, challenges are observed during implementation of the system. Most challenges related to the data collection format and will be corrected going forward.
46. **Procurement Operation and Performance.** The assessment looked into the procurement operation and performance at decentralized level and made the following observations.
47. **Procurement Plan.** Most of the visited sector offices and Woredas prepared annual procurement plan using template issued by the respective regions, which is, however, too brief and incomplete in providing essential information on planned procurement activities. In Woredas of some of the visited regions, procurement related decisions including decision on procurement methods, scheduling and so on is undertaken on a case by cases basis, when piecemeal procurement request is submitted by users. Thus, in most cases, procurement plans are prepared more as a formality than to use them as a management tool useful to guide and monitor procurement activities.
48. **Since WoFED handle procurement demands of other sector offices, close coordination between the sector offices and the WoFED is essential.** However, the assessment noted that there was no enforced procedure and standards which facilitates communication between the sector offices and WoFED both at the time of consolidating requirements and at the bidding stage.
49. **Procurement Methods.** The revised pool manual allows use of 6 procurement methods for procurement in the poll system; Open Bid, Two Stage Bidding, Request for Proposal, Restricted Bidding, Request for Quotation and Direct procurement. However, the manual didn't provide threshold nor conditions in the use of the procurement methods which is left to be governed by the respective regional procurement directives. Besides, almost all of the Woredas in the visited regions dominantly use Local Competitive Bidding and Regional Competitive Bidding (in case of Tigray) by advertising procurement opportunities in a way accessible to local or regional suppliers only.
50. **Bid Advertisement.** Based on the review of sample procurement document, it was observed that sector offices as well as Woredas advertise through Addis Zemen Newspaper when using national open bids method. But the floating period for World Bank financed contracts and for Government financed contracts are different, that is, 30 days and 15 days respectively. The Invitation for Bids do not indicate specific bid opening dates rather they state "bids will be opened after fifteen (15) days from date of invitation" which has a risk of creating confusion on the exact bid closing and opening dates.
51. **In Tigray, invitation to Regional Competitive Bidding and Local Competitive Bidding is normally floated using the regional language and in a media accessible to the local / regional business community.** Similarly, in SNNPR invitation in Local Competitive Bidding is posted on the procuring entity's notice board and hence, accessibility to the wider business community is limited. Besides, standard format and procedure were not applied and the practice lacks consistency.
52. **Bidding Documents.** The procurement team prepares incomplete Bidding Document for procurement of Goods and Services. But for Works procurement and specifically in Oromia Region, bidding document is normally prepared by the requesting work unit in collaboration with the technical experts and the procurement team. However, preparation of bidding documents is not supported by Standard Bidding Documents and lacks complete information for potential bidders. The bidding documents contain only list of required materials and specifications.

53. **Apart from use of standard BDs, the critical challenge during preparation of bidding document was access to comprehensive specifications.** Sector offices do not have the capacity to prepare a specification for goods they request. The purchase requests submitted by sector offices does not clearly indicate the description of goods required. Mostly, the requests mention brand names, and the brand is used as a specification of required goods in the bidding documents. The request for quotation also lacks main information such as, price validity, payment modality and delivery or completion date and the visited Woredas issue specification and BoQ only.

54. **Some regions have issued SBDs and claim training has also been provided, but the SBDs are not being used to guide the preparation of bidding documents.** Procurement experts in some offices are unaware of the SBDs and some experts consider the SBDs bulky and complex that is relevant only for Works procurement. It will be appropriate to simplify the SBDs and ensure that SBDs which are “fit for purpose” are issued considering the volume and complexity of procurement as well as the applied procurement method. In this respect, it will be important to finalize the simplified procurement directive which was prepared by a consultant sponsored by FPPA and customize to the regional and Woreda context.

55. **Bid Opening.** In most of the visited sector offices and Woredas, bid opening doesn’t follow formal procedure. Except registration of bidders, no record has been maintained that shows the bid opening procedure and also the results of the bid opening including information on bid security, readout price and so on, and no Minutes of Bid opening is kept. However, in some sector offices, the procurement experts keep records in a register book which are signed by the bid opening committee. It will be helpful if simplified template is issued to record information on bid opening.

56. **Evaluation.** Bid evaluation is normally undertaken by members of the procurement team which largely focus on price comparison without undertaking technical evaluation. Hence, there is a high possibility of procuring cheap and substandard materials. In some cases, particularly on IT equipment and Works procurement, technical evaluation has been undertaken by a technical evaluation committee including relevant technical experts from user departments/sectors. However, absence of complete bidding document affects the fairness and validity of the evaluation process and its outcome, as evaluation criteria are not communicated in advance as part of the bidding document issued.

57. **Approval of evaluation reports and award.** Except for procurement undertaken under RFQ and LCB which are delegated to the Procurement, Finance and Property Administration Process owner or his equivalent, evaluation reports are normally approved by a Bid Endorsing Committee. Bid Endorsing Committees are established by the Head of the Public Body and represent members from the different units of the public body. The pool manual requires the WoFED Head to consult the Woreda administration and requesting sector offices while establishing a Bid Endorsing Committee. But members of the Bid Endorsing Committee are not oriented with the applicable procurement rules and procedures.

58. In the absence of a distinct procurement team with its own structure and defined responsibility and in an environment where procurement is organized as a pool of staff reporting to the Procurement, Finance and Property Administration Process owner, it is noted that the approval process lacks the required level of segregation of duties and responsibilities.

59. **Award Publication.** The procurement rules in both regions, requires all bidders to be informed of the results of the bid evaluation at the same time. Public bodies announce results by posting the name of the winning bidders on notice boards but fail to provide complete information including reasons why other bidders were not selected. In the Bureau of Natural Resource and Agriculture (SNNPR), it was noted that the technical evaluation report has been posted to bidders before evaluation was finalized and approved by the Bid Endorsing Committee. According to the discussion with the Procurement, Finance and Property Administration Process owner, their intention was to clear the process including addressing bidder’s

complaint on the technical evaluation report before proceeding to and finalizing the financial evaluation and approval process. However, given that the bids were processed under “single envelope” procedure, communicating the results of the evaluation before approval violates the basic principle of “confidentiality” of the evaluation process.

60. **Contract management.** Contracts are prepared in an abridged form without containing the essential provisions that clarify and share responsibilities between the supplier and public body. In most cases, the contract document provides only the agreed contract amount, the material and quantity to be delivered, delivery time and signature. When the contract document is prepared in a longer format, the sharing of responsibilities between the supplier and the public body is unfairly unbalanced which ultimately affect contract performance. Except for procurement of “Works” contract that is managed by the requesting work unit, contract management is the responsibility of the procurement team. The team composition in the revised pool manual suggests for “Contract Administration” expert which should be met, given the existing low capacity in contract administration.

61. **Record Keeping.** The revised pool manual requires copy of procurement documents to be kept at the custody of a responsible person working under the Procurement and Property Administration Process in the WoFED. This has been practiced in some of the visited woredas but in most of the visited public bodies, procurement documents were kept in the finance unit as a supporting document for payment. But according to the PBS III Independent Procurement Audit Report (2016), only 59 percent of the audited public bodies had a complete file containing all the required procurement records and only 41 percent had dedicated space and facilities for record keeping.

62. **Conclusion and Main issues.** Procurement expenditure at Woreda level is increasing at an average annual rate of around 12 percent. Average share of procurement expenditure against budget has reached 28 percent at Woreda level. Procurement expenditure in the three basic service sectors (Health, Education and Agriculture) has reached 70 percent of total spending at regional level. In general, Woredas record low value contracts and it is not expected that there will be any high value contracts falling within OPRC threshold during the life of the Program.

63. **There is an established legal and institutional framework for management of procurement activities.** In most Woredas procurement function is organized under the Property and Procurement Process Owner responsible to the head of the Woreda Finance Office. Each Woreda has a centralized procurement system (pool system) serving all sectors at the Woreda. Basic Sector Bureaus at regional level have their own procurement units to deal with procurement activities. Given the high level of procurement activity at sector office, it is important to build commensurate procurement capacity at sector offices by improving the procurement organization structure and staffing with experienced and training procurement officers. Regional Procurement Regulatory Bodies are mandated to provide procurement oversight and monitoring both at Woredas and regional sector offices. To appropriately discharge their responsibilities, the organizational structure and capacity of the regulatory units should match with the ever increasing volume of procurement in the regions. The fact that the regional regulatory bodies have started procurement performance measurement system through KPIs is encouraging progress in terms of creating a catalytic effect toward strengthening the procurement system.

64. **Given the low degree of oversight by Regional Procurement Regulatory Bodies because of capacity limitations and the observed gaps in procurement operation and performance at decentralized level the procurement risk is rated high.** To strengthen the reliability of the system, a number of measures have been identified for implementation as part of the Program. The measures are focused at 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. The assessment identified the following main issues in the procurement system in relation to Program performance:

- (a) Most regional regulatory bodies do not have adequate and dedicated budget that they can plan and use to be able to discharge their responsibilities properly. The organization of most regulatory bodies lack independence.
- (b) Staffing at some regional regulatory bodies is very low leading to the bodies not functioning properly
- (c) Staff with no procurement experience and training are assigned at procurement units of basic sector regional bureaus that expend significant share of budget through procurement,
- (d) The coverage of procurement audit by regional regulatory bodies is low with decreasing trend. In addition, the coverage, 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 Procurement and Property Administration Process as directed by the pool manual.
- (f) Works constitute the major share of procurement expenditure at 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. Despite works constituting a lion's share of procurement expenditure, trainings and capacity building do not to 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 Woreda level, that need to be addressed.
- (h) There is a need to prepare and disseminate Woreda specific procurement directive, procedure and standard procurement documents.

65. **Recommendation.** To address the identified issues and improve the procurement system that will have an impact to the PDO, the following recommendations were made:

- (a) The project will continue to have a Disbursement Linked Indicator that will lead to a much improved procurement system. The DLI have the objective of improving the function of regional regulatory bodies. As a seed to vitalize the function of regulatory bodies that the DLI encourages regional regulatory bodies to continue with data collection and reporting on procurement performance of three basic sectors (Agriculture, Health, Education) for each regional states Oromia, Amhara, SNNP, and Tigray, and additional five regional states Gambella, Somali, Afar, Benshangul and Harari will join to implement performance measurement through KPI. Furthermore, as part of the DLI all regional regulatory bodies will reach a minimum cumulative procurement audit coverage of 20 percent by the second year of the AF operation and will report on the findings to regional cabinet.
- (b) Regional BoFED's will strengthen staffing and provide adequate resource to regional regulatory bodies to enable them carry out their function as per proclamation (budget, transport, and so on) commensurate with the level of procurement spending in the region.
- (c) 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.
- (d) The FPPPA will provide Training in procurement audit to 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) A full set standard procurement documents that is fit for procurement activities at Woreda and basic service sectors level shall be prepared and disseminated as follow up of dissemination of simplified directive and procedures.
- (f) Basic sector Bureaus will apply specific procurement experience requirement when assigning staff in senior procurement positions.
- (g) The FPPPA will ensure the consultancy service for Woreda Procurement Gap Identification and Preparation of Simplified Woreda Directive and Procedure will be finalized successfully, and the regional regulatory bodies will customize, rollout, and implement the simplified directives and procedures on Woredas. Structured and adequately timed Trainings will be organized and delivered to Woreda procurement staff based on the directive, procedures and standard procurement documents. This is expected to address the various gaps identified at the Woreda procurement system.

## **Fraud and Corruption**

66. **There is robust legal framework for addressing F&C risks in Ethiopia.** FEACC and REACCs in cooperation with the Federal Attorney General have adopted both preventive and curative approaches in combating corruption in the country. FEACC will concentrate on the preventive side on expanding and promoting ethics and anticorruption education, while Federal Attorney General focuses on the curative side on prosecution of alleged corruption offences. FEACC has signed MoU with REACCs on April, 2012 and established closer relationship in carrying out mutual cooperation activities, building capacities and compiling country level reports on F&C that will be reported to the World Bank's Integrity Vice Presidency. Government's determination in controlling F&C could be also being explained in structuring and the assigning of officers/ focal representatives in many of the offices and enhancing of anti- corruption alliances/ movements, preparation of training modules for officers and council members, provision of cascaded training and information sharing of the ESPES PforR fiduciary requirements. With regard to PforR operations, the involvement of BoFED, REACCs and the relationship of FEACC with the World Bank has been encouraging.

67. **The Woreda structure has to be strengthened to effectively respond to F&C incidents and ethics violations across basic sectors.** In this regard, Ethics Officers are either assigned or delegated in more than 76 percent of the WoFEDs including Zone Finance and Economic Development Offices(ZOFEDs) and urban centers in the regions. The placement has also been checked and verified by MOFEC, FEACC and observed in the visited Woredas. In the assessed eight Woredas of the four regions, Ethics officers have been assigned or delegated as focal person in seven of the Woredas. Out of the seven, three of them are assigned following the approval of structural position. In other regions, these officers were assigned in prioritized sector offices, through various formations, such as focal person or committee member.

68. **FEACC developed a template for recording and reporting.** F&C cases are not yet registered by officers in WoFEDs or other sector offices in accordance to FEACC/REACC format/template. FEACC provided TOT on F&C including on recording and reporting of cases for 45 REACC officers/ experts. Training on F&C and recording and reporting is not provided to WoFEDs Ethics Officers by respective REACCs in most regions. Ethics Officer lack skill upgrading training in the specific fields.

69. **The F&C structure also needs to be strengthened at Woreda level by placement of adequate number of Ethics Officers in WoFED and basic sector offices and building the respective capacity in systematic recording and reporting of F&C related to the program.** Sector offices at Woreda level have not yet detected and recorded incidence or allegation of F&C in basic sector performances. They have not also reported F&C suspects to REACC yet.

70. **REACCs performance has shown improvement from year to year displaying the functionality of the arrangements.** In developing regions capacity gaps exist and addressing it is not yet a priority. In these and some others regions, BOFEDs lack Ethics Officers at regional level; REACCs have inadequate investigators and field supervisors and furthermore, there is risk of turnover of experts and ethics officers.

71. **On the demand side, awareness and engagement of the public in providing tip-offs through the system is vital.** The public understands and use of procedures in providing F&C tip-offs and addressing mechanism needs strengthening. Disclosure and information sharing to the Public on F&C activities and their impact at Woreda is also low. Tailored mechanism has to be carried out to inform the public about complaint procedures/ providing tip-offs on F& C and complaint through the use of regional public media. The public should be well informed through media air coverage about complaint procedures/ providing tip-offs for the ethics officer including the GRM structure at different levels by region.

72. **There is structure and mechanism for internal control, accountability, checks and balance on planning and expenditure use by Woreda council.** The Budget and Finance Standing Committee has relationships or contact with WoFED core processes or temporally assigned committee for budget allocation and in some Woredas it contacts internal auditors to discuss about findings. The standing committee reviews budget and ensures fairness of allocations, checks F&C incidents, complaint of citizens, expenditures and projects and so on. The Woreda council structure consists of the Spokesperson, Deputy Spokesperson and office head of administration, four to five standing committees (that consists of five standing members each). The committee members are representative of the constituents and at the same time were/are working in regular cabinet works as professional experts, supervisors and hence salaried as well as paid per diems as needed. In line with the decision of the Oromia regional council, a chairperson of Woreda Budget and Finance Standing Committee is appointed to all Woredas and the chairperson works full time.

73. **The committee members' level of educational qualification and experience is adequate enough to retain training and orientation in the specified areas.** Training manual for Woreda council members has been prepared and improved by MOFEC and distributed to BOFEDs in 2017 but training has not been given to the standing committee. New Woreda council Budget and Finance Standing Committee member lack orientation and training to follow up internal audit findings and recommendations. Training/orientation is not given for spokesperson, experts serving as advisors to the Standing Committee. In most cases, Woreda internal auditors gave internal audit findings and recommendations to Woreda council. However, Woreda Budget and Finance Standing Committee that received reports on audit findings and recommendations, took actions (clarified and enforced actions) has not progressed much from the estimated base line level.

74. **The controlling mechanism of all the resources was also strengthened by Internal Audit; especially by monthly checks/reviews of sector resources and expenditures.** However, the data base for personnel management in most civil service offices needs improvement. Check and balance system exist but requires to build capacity. The Woreda Budgeting and Finance standing Committee of the Woreda Council has limited capacity to provide effective oversight, transparency and accountability of budget and expenditures, with some exceptions. The capacity of the budget and finance standing committee needs to be strengthened in respect to the implementation of auditors' findings and recommendations regular review and follow up.

75. **Financial control on salary payments which constitute a majority of Woreda level expenditure, are extremely strict and difficult to bypass.** In the visited Woredas, staff attendance sheet is verified for salary control particularly for education and health sector offices. This involves a review of attendance sheet, submitting of validation letter, verification, checking personnel and payroll record, and



so on. There were no significant distortions or incidence of F&C or deviation on utilization of payroll and recurrent expenditures. Each sector keeps staff attendance sheet signed by employees (morning and afternoon signatures). Together with the attendance sheet, letter of advice is written on deduction of days not worked or on absentees and submitted to WoFED which in turn verifies the list with payroll before cashing. In some Woredas, attendance records of front line service providing personnel for some sector offices are not timely compiled. It is necessary to follow up, and supervise records of different offices in the service centers. Furthermore, as a result of split of Woredas, the sufficiency and fairness of budget allocation and utilization among the splitted Woredas in Oromia and Amhara region is questionable. The concerned regions should provide short term measures to ensure fairness of allocations of salary and recurrent cost to Woredas based on formula and fill budgetary gaps of the newly added Woredas. It is important to carry out assessment on the fairness of budget allocation and utilization efficiency in regions which introduced additional Woredas.

76. **From time to time, both the Woreda internal auditor and the Budget and Finance Standing members capture limited prosecution cases and offences in basic sectors.** The F&C incident areas and risk of misuse are indicated during high budget utilization fund at the last months of the budget year; in cash receipt and use of school grant, school internal revenue, not utilizing school fund timely, in low quality of school toilet construction by contractor, forged educational certification; fraud on cash receipt and use of veterinary drug, not collecting cash for veterinary drug through receipt; not timely distributing agricultural machine tools, and in procurement such as low quality of design and construction of irrigation; low quality of drinking water distribution.

77. **Complaint handling mechanism.** Regarding maladministration control, a wide range of complaints were channeled and responded by grievance handling bodies. The complaint handling bodies, have been instituted in all Regional States. The staffing level and functioning at regional level GRMs is unchanged in some regions (Oromia, and SNNP). The structure is improved in Afar region. In Amhara region, the structure is well organized with dedicated budgetary power at regional and Woreda level. In others, GRMs are resourced through the administration offices. Although, GRM in Amhara region is established as budgetary institution and structured, adequate capacity building support was not given. In general, the low budget at regional and Woreda level, unchanged staffing level at regional level and the limited roles of GRM at Woreda level has affected the effectiveness of Woreda level GRMs and their enforcement power.

78. **Low recurrent cost is provided to the GRM due to the rising demand of budget for different arms of the council at Woreda levels, increasing salary and non-salary expenditure requirements reinforced by split of Woreda in the regions, and so on.** It is advisable to ensure reasonable proportion of budget for running of GRMs effectively. On the other hand, however, the GRMs at Woreda level need not be established as budgetary institution since cost center expansion is burdensome in view of the risk of dissipation of the Woreda budget which is already inadequate.

79. **Draft report on ‘Standard manual for regional public grievance office’ has been prepared and distributed to regions.** GRM Recording and reporting of the complaints of maladministration and governance questions by regional and Woreda GRM has been highly improved in Amhara region while it has remained the same, general and not sector specific in some others. It is worth providing training for the well performing but capacity constrained regional GRMs.

80. **The updated fiduciary assessment highlighted the considerable attention that the Government has devoted to strengthen the capacity of Woreda-level decentralized institutions to effectively respond to F&C and complaints handling and this is reflected by strengthening F&C structures at decentralized administration level, preparing training modules for officers and council members, providing cascaded training as well as information sharing of the ESPES PforR fiduciary**

**requirements to track and control F&C.** To sustain the fiduciary control system, the existing DLI ‘Strengthened capacity of Woredas to effectively respond to Fraud and Corruption’ should be realized. Therefore, a split DLI is proposed to ensure (a) strengthened capacity of Woredas to effectively respond to F&C complaints and (b) strengthened capacity of Woreda Council Finance and Budget Standing Committee members to provide effective oversight, transparency and accountability for budgets.

81. **Assignment of ethics officers in WoFEDs will be completed.** Ethics officers that are already delegated will be fully assigned or substituted. The coverage and quality of recording and reporting of F&C cases/ tip-offs by officers will be improved. For this purpose, cascaded training and or orientation will be provided. Sample Woredas will be checked for their effective recording of F&C and this will lead to the role out of the process across Woredas. Eventually, the Woredas, based on their built up capacities, would be able to track, investigate and respond to corruption tip-offs/cases or forward the cases and provide investigation and prosecution reports to REACC based on the template.

82. **Woreda Budget and Finance Standing Committee oversight capacities will be enhanced through training, orientation and strengthening of relationship with auditors, concerned experts, along with shaping the procedures of dealing with internal or external auditors.** Woredas will prepare Action plan and checklists will be prepared to enable discuss audit findings and recommendation and to take actions. The action will be taken up in at least half of the Woredas.

83. **The proposed ESPES PforR will be aligned to the World Bank’s ACG.** There are several initiatives underway in Ethiopia to strengthen the institutional arrangements for combating F&C. Some of these initiatives are funded through the ESPES P for R such as CE, FTA and SA, GRM initiatives.

## **Summary of Proposed Program’s Fiduciary Arrangements**

### ***Financial management***

84. **FM implementation arrangements.** This builds upon the existing arrangements under the current operation of ESPES-PforR and PBS Program-IPF. Key ones include:

85. **Budgeting.** Normal budget procedures of the GoE will continue to be in use which reflects the fiscal decentralization structure of Government. The budget is processed at federal, regional, zonal (in some regions), Woreda and municipality levels. The Federal budgets are reviewed at first by MoFEC and then by the Council of Ministers and finally to Parliament for ratification by the end of the Ethiopian Fiscal Year (EFY). Regional Governments will receive funds of this Program 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 MoFEC. In regards to budget monitoring aspects, normal Government system requires monthly reporting from lower to higher levels. In addition, quarterly IFRs sent to the DPs will also incorporate budget monitoring reports where actual performances will be compared with Budget and explanations will be provided for significant or major variances.

86. **Accounting Policies, Systems and Procedures.** For this AF, accounting will continue to be governed by GoE’s accounting policies and procedures. The computerized Integrated Budget and Expenditure (IBEX) accounting system is operational at the federal level and most regions as well as Woredas. It continues to be rolled out where absent in which cases manual accounting system is in place. As noted above the Chart of Accounts will accommodate the expenditures of the activities. Each implementing entity will continue to account for expenditures incurred at their entity, retain documentation and submit financial reports to the next level (Zone/BoFED/MoFEC) for consolidation. COPCD is adequately staffed to oversee the FM functions of the Program at Federal level. A PBS-ESPES FM team

involving about seven staff is currently in place at COPCD which will also be responsible for this PforR program. Responsibilities and roles will be reviewed and updated as appropriate. Regional channel one coordinators are recruited to strengthen regional follow ups.

87. **Internal Control and Internal Audit.** Again, the program will use Government FM systems and procedures which are adequate to ensure that satisfactory internal controls are in place. Internal control challenges were noted largely at Woredas in the area of property management, cash and bank management, adequacy of payment documentations, and so on. MoFEC and BoFED are regularly following up with Woredas to resolve these challenges. MoFEC and BoFEDs each have Inspection Departments whose mandate includes ensuring good quality of internal audits at the Ministries at Federal level and Sector bureaus at region level, following up on the audit recommendations noted by internal audit reports at different Ministries at Federal level and Sector bureaus at region level, providing training and improving manuals. Further, each public body has internal audit units performing post audits on all financial transactions of the entity. However, internal audit within Government is generally weak particularly at Woreda level and reforms are being undertaken to address it. It is envisaged that internal audit at all levels will include internal audit of this program in their annual program. Internal auditors recruited for PBS at MoFEC and BoFEDs will support this program as well in following up on audit findings.

88. **Funds Flow and Disbursement Arrangements.** The IDA funds of the program will continue to be channeled to MoFEC from IDA. Disbursement of program funds will be made only upon achievement of the DLIs from IDA twice a year. Funds will be deposited to the Treasury or the existing separate foreign currency account opened at National Bank of Ethiopia (NBE) and managed by MoFEC- COPCD. The choice was left to MoFEC and MoFEC has decided to open separate foreign currency account under the existing operation. This will continue to be applicable for the AF operation as well. MoFEC will use the resources to finance eligible expenditures under the program. Upon achievement of the indicators, the MOFEC will inform the World Bank and provide evidence as per the verification protocols, as justification that results for the DLI have been met. In case of a scalable DLI, the task team will determine the amount to be disbursed on the basis of the programs progress report and DLI verification protocol. A notification will be made 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 World Bank using the World Bank's standard disbursement forms signed by an authorized signatory. Details of the key disbursement issues are 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. Once IDA resources reach the separate foreign currency account, then the Program can use it to finance program expenditures at Federal level or transfer resources to the Treasury at local currency account for transferring funds to BoFEDs. At regional level BoFED will also disburse resources to WoFEDs.

89. **Financial Reporting Arrangements.** MoFEC will continue to submit quarterly consolidated unaudited IFR prepared on the basis of actual expenditures for the program within 90 days of end of the quarter. The existing IFR formats will be applicable for the AF and will be produced from the existing Government accounting system. Annual financial statements will also be prepared for the audit and will use similar format as the quarterly reports. The annual financial statements need not be sent to IDA. It is expected that Woredas and regions shall prepare their reports for consolidation from updated ledgers maintained at such levels.

90. **External audit.** MoFEC will continue to be responsible for having the financial statements audited annually and submitting the audit report (audited annual Program financial statements and Management letter). Annual audited financial statements of this program will be submitted to the World Bank and other DPs within six months of the end of the Government fiscal year. The World Bank in accordance with the

Access to Information policy will request for public disclosure of Audit Report. The audit will be carried out by OFAG or an auditor<sup>39</sup> acceptable to the World Bank. The existing Audit ToRs will continue to be applicable. The auditor will express an opinion on the program financial statements. The auditor 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 OFAG. Reports (summary of findings) of this continuous audit will be submitted, on a quarterly basis, to IDA and DPs within 60 days of the end of the quarter. The auditor will use, among other tools, the results of the continuous (interim) audit in forming an opinion on the Program 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 by the World Bank and other DPs.

## ***Procurement***

91. **In Ethiopia, for Federal budgetary bodies, public procurement is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009.** The Proclamation establishes the FPPAA as a body responsible for regulation and monitoring of Federal bodies' public procurement activities. All nine regional states and two city administrations have enacted their procurement proclamations based on Federal Procurement Agency template. All of them have established procurement regulatory units, though at varies degree of independence. The regulatory units have in turn issued 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 was prepared based on the UNICTRAL Model procurement law. The proclamations establish procurement oversight responsibility; outline the procurement organizational structure, procurement methods and procedures, complaint handling procedure and so on. However, the practical implementation of procurement rules and procedures is irregular and is faced with numerous challenges. The procurement oversight arrangement and capacity is also weak. In general, the Procurement Legal Framework of the nine regional states and two City administrations could be considered adequate, despite a number of setbacks when it comes to the implementation.

92. **Procurement implementation arrangements.** Program finance will be channeled to local level through federal and regional block grant system with the objective to improve equitable access to basic services and strengthen accountability system at decentralized level. Improving access to basic services necessitates acquiring basic service inputs for services such as water supply, schools, health posts, agricultural inputs, roads and so on, through procurement process at the Woreda level. To fulfil this procurement function, there is an established legal and institutional framework for management of procurement activities at Woredas. Each Woreda and regional sector office has a responsible unit for procurement implementation. Woredas' procurement process is centralized at Finance and Development Office with mandate to procure for other budgetary institutions. The organization of the procurement units is governed by the pool manual at Woredas. The manual instructs the procurement unit to be established as "Procurement and Property Administration Process" within the WoFEDs. Most Woredas have established the unit as a Procurement and Property Administration Process with dedicated responsibility to deal only with procurement, though there are Woredas that yet have to organize the procurement unit as per the manual.

93. **The Program will build on the existing procurement arrangement at Woreda and regional sector offices.** Most Woreda procurement units handle all goods procurement requirements of sector offices

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<sup>39</sup>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. 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

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. Depending on threshold and complexity, sectors assign works procurement responsibility to sector bureaus at region level. Oromia has special arrangement whereby works procurement processes are handled by a committee established at Woreda level chaired by deputy Woreda administrator. In Tigray capital projects are handled by the Woreda construction, road and transportation project office. This indicates that the pool system established at Woreda level is prepared based on consideration given for good procurement. Given the background that Woreda procurement expenditure is increasing overtime, it is inevitable that demand for works contracts for improving of 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. To address this and other identified gaps at Woredas, an action plan is agreed under the Program to improve the system.

94. **Procurement oversight responsibility under the Program will be discharged by regional procurement regulatory bodies.** The regional regulatory units are legally mandated to take procurement oversight responsibility for the region, including Woredas. One of the main function of regulatory bodies is to carry out regional procurement audit to ensure procurement implementation compliance against procurement directive. Agreement is reached under the Program that the regional regulatory bodies will maintain a minimum of 15 percent Woreda procurement audit coverage throughout the Program period as a fiduciary oversight mechanism for the Program activities. The Program has also agreed other actions that will improve the procurement audit capacity of regions. In addition to undertaking procurement audits, the regional regulatory bodies are entrusted with a number of other regulatory responsibilities. One of their major responsibilities is to monitor procurement activities and report on performance. This core activity is initiated by four regional regulatory bodies. The Program has recognized that focusing on this function is critical and catalytic to strengthen the procurement system at decentralized level. Therefore, a DLI that addresses and incentivizes this particular function will continue to be included in the Program.

#### ***Fraud & Corruption and Complaint Handling Mechanism***

95. **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. 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 rural Woredas, urban local Governments, zones and preparing a national report on anticorruption efforts across the country.

96. **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. FEACC and REACCs in cooperation with the Federal Attorney General have adopted both preventive and curative approaches in combating corruption in the country. FEACC will concentrate on the preventive side on expanding and promoting ethics and anticorruption education, and preventing corruption while Federal Attorney General focuses on the curative side on prosecution of alleged corruption offences.

97. **Although the laws of FEACC and REEACs have provisions on the assignment of ethics officer in all Government public bodies and public enterprises in the country, ethics officers are not found in Woreda basic sector offices with the exception of a few sector offices or public bodies.** The officers exist in a few Woredas in the office of revenue, office of administration, office agriculture/rural

development and a very limited Woredas have started to assign in office of education water and sanitation and not in health or rural road/ URAP sector offices. In the absence of ethics officers in the basic sector, the Ethics officers in WoFED will manage sector specific F&C cases. However, it is necessary to ensure assigning/ hiring of Woreda Ethics Officers as per approved structure in the regions to undertake full-fledged tasks on sustainable basis. In the process, it is important to ensure accountability of REACCs to endorse the structure, hire or transfer as per the civil servant law.

98. **FEACC and REACC have adopted both preventive and curative approaches in combating corruption in the country.** They undertake preventive functions and activities through different mechanisms, which include establishing anticorruption offices and forums, studying work procedures and systems within public institutions and making recommendation for addressing identified weaknesses, and providing ethics education. Likewise, investigation and prosecution of suspected cases of corruption are important curative activities of their mandates.

99. **With regard to ESPES PforR, the involvement of BoFED, REACCs and the relationship of FEACC with the World Bank has been encouraging.** Clarification was made on investigation of F&C cases as part of the operation and agreement of ULDGP PforR jointly to be carried out by the FEACC and the World Bank. Accordingly, the existing system will be used to control program resources, track and rectify public grievances. However, most of the staff in REACCs are not fully aware of the operation of PforR and ACG requirements; realization of MoU, information sharing, investigation and exchange of debarment lists.

100. **Sharing Information on F&C allegations and reporting arrangement.** The Government agreed to implement the Program in accordance with the ACG, applicable to PforR operations (ACGs). In line with the ACGs, the Government (through FEACC) will share with the World Bank 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 with the World Bank.

101. **Sharing of Debarment list of firms and individuals.** The Government of Ethiopia commits to use the World Bank's debarment list to ensure that persons or entities debarred or suspended by the World Bank are not awarded a contract under the Program during the period of such debarment or suspension.

102. **FPPAA.** The FPPA have a website and will provide a link to World Bank debarred list for use by implementing agencies. The update of the debarment list as well as the deviation from the list of debarred firms will be monitored as part of the annual Program Audit / annual Program assessment.

103. **Investigation of F&C allegations.** The World Bank's Integrity Vice Presidency has a good working relationship with the FEACC as part of a 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. The MoU will therefore make it possible for the Integrity Vice Presidency to collaborate with FEACC and through it with Federal General Attorney on any case of suspected F&C in the Program. 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 Integrity Vice Presidency and FEACC based on the MoU has been cooperative and productive.

#### ***Fiduciary Risk Summary and Mitigation Measures - Addressing Fiduciary Risk***

104. This incremental assessment assessed whether (a) there are new expenditures/ procurement profiles arising from the AF and if this warrants a change in fiduciary arrangements, (b) whether there are any new

fiduciary risks not originally envisaged manifested during implementation of the ongoing project (c) whether the original mitigation measures effectively mitigated the risk and (d) how any risk mitigation measures that were not implemented such as those in the PAP affected the performance of the Program and if additional actions are needed to address the risk. In this regard, the IFA notes in the program expenditures framework section that there are no new expenditure and procurement profiles. Only additional expenditures are planned for the new project duration. The overall framework and profiles are still the same focusing on basic services. Therefore, there is no need to change in fiduciary arrangements from the original project.

105. **As far as the risks and mitigation measures are concerned, for FM, more or less the same risk profiles are noted.** There are challenges in internal controls with repetitive internal control challenges are noted including weak property management, weak cash management. In addition, internal audit weaknesses are also noted again. Challenges to the oversight function including timeliness, transparency and follow up on audit findings is also an issue. These are more or less similar to the past issues and risks. Status of past mitigation measures are annexed to this IFA. Thus FM contributions to the PAP are updated taking on board unfulfilled actions and are more focused on key issues like internal audit, system issues, internal control and M&E and accountability measures thereof to address repetitive findings.

106. **Likewise, similar risks that were identified in the initial assessment were also identified in the current assessment with regard to procurement management system.** The risks involve both the regulatory and operational environment at decentralized level. The regulatory environment has actually declined in terms of capacity to have effective oversight on procurement activities under respective jurisdictions. The assessment notes that not all PAPs recommended in the initial assessment were implemented. The original PAP action to ensure a minimum of 15 percent procurement audit coverage annually was not achieved by most regions. The PAP to finalize, disseminate and implement simplified Woreda procurement directive was not achieved and is still under process. Hence this revised assessment has recommended to keep these PAPs to be given attention and implemented in the AF project duration. On the other hand, the DLI action that has objective of strengthening function of regional regulatory units has shown encouraging progress. The selected four regional regulatory bodies have starting collecting procurement process data though analyzing data and reporting on performance based on indicators remains to be achieved. During the AF period, performance measurement system using KPIs will be scaled up to include remaining additional five regions while the initial four will continue to strengthen and streamline the system through annual performance reporting.

107. **In regards to F&C and Compliant handling mechanisms, most DLIs and PAP related to F&C risks and compliant handlings due before or in May 2017 in the current program have been achieved and the remaining are also in the right track.** Mitigation measures such as assigning of ethics officers at the Woreda level and providing training to the budget and Finance standing committee of the Woreda council for a better oversight role have been achieved. To further strengthen the F&C prevention and improving the compliant handling system in an incremental way, under the proposed program training of Woreda's parliament members will continue for the uncovered Woredas and also audit findings follow-up will be strengthened. In addition, as fulfillment of the human resource requirement at the Woreda level for F&C prevention has been achieved in the existing program, the next step is ensuring proper recording system and follow-up of decision on corruption cases which will be the measure element under the proposed program.

108. **Based on the above reasons, the fiduciary risk assessed for this operation is classified as “substantial”.** Overall, the fiduciary assessment concludes that the examined program FM and procurement systems 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 the F&C, including effective complaint-handling mechanisms, have been agreed on and established. Risk mitigation measures for the identified risks have been discussed and agreed with Government. The risk mitigation measures have three approaches:

- (a) First a DLI will be provided in the Financing Agreement to support transparency aspects of the Program;
- (b) Secondly specific actions have been proposed that will support the DLI and help improve efficiency and performance monitoring are indicated in the PAP; and
- (c) Third, use other interventions- These include result indicators of the program, IPF element or component, use other programs that are addressing the issues, and so on

109. The following (Table 8.2) are inputs to the PAP from fiduciary.

**Table 8.2. Fiduciary inputs to the PAP**

Action	FY-1	FY-2	FY-3
<b>PFM</b>			
<b>Internal control</b> For repetitive internal control weaknesses, institute strong M&E system and take accountability measures to ensure that actions are taken; For long outstanding Advances, track long outstanding balances and take action to resolve them;	X	X	X
Address system challenges that improve internal controls: a) Finalize and rollout a payroll application software; b) Make sure existing property management record system is operational at local level. Find automation options including replication of existing efficient computer systems (if any); c) Improve websites of BoFEDs to improve disclosure to address PEFA concerns; d) Sustain and manage IBEX system at woredas effectively.	X	X	X
<b>Internal Audit</b> a) Target reforms that address the internal audit challenge at decentralized level should be developed; b) Regions should fill vacant posts of internal auditors at local levels; c) Build capacity of auditors on an ongoing basis through regular trainings	X	X	X
<b>Procurement</b>			
Regional regulatory bodies maintain a minimum of 15% Woreda procurement audit coverage annually	X	X	X
Strengthen staffing and provide adequate resource (budget, transport, and so on) to regional regulatory bodies to carry out their function commensurate with the level of procurement spending in the region	X	X	X
Customize procurement performance measurement guideline and start data collection in Gambella, Afar, B. Gumuz, Somali and Harari regions	X	X	
Customize, rollout and implement simplified procurement directives and procedures on Woredas	X	X	
<b>F&amp;C and Complaints Handling</b>			
Provide TOT to REACCs by FEACC; REACCs conduct cascaded training to Woredas on record keeping and reporting of F&C cases	X	X	X
Provide TA for assessment of sufficiency and fairness of budget allocation to split Woredas (by Oromia and Amhara BoFED)		X	



### ***Implementation Support***

110. The World Bank fiduciary team will review the implementation progress of the program in the following areas:

- (a) Review of Reports- This can be quarterly financial Reports, quarterly continuous audit reports, annual program financial reports and relevant progress reports on the implementation of PAP and DLIs, and so on.
- (b) Conducting field visits or fiduciary specialist will participate in missions or supervision/implementation support field visits.
- (c) Participate in the semiannual JRIS session and mission.<sup>40</sup>

111. The objective is to understand:

- (a) The achievement of agreed actions and DLIs
- (b) The continuing adequacy of systems
- (c) To monitor risks and mitigation measures
- (d) To monitor covenants and agreements
- (e) To understand the status of capacity

112. **Monitoring Fiduciary Risk.** Building initiatives and devise ways to support in challenging areas. The frequency and breadth of fiduciary systems implementation support may be varied in accordance with changes in the risks to the Program. Given the risk profile shown above this program will be reviewed twice through the semiannual JRIS. In regards to fiduciary aspects, it is expected that as implementation progressed, substantial improvements in procurement and FM capacities will reduce the risk profile and may afford a reduced supervision schedule. This will be determined by the World Bank's fiduciary systems team in consultation with other pooling partners to monitor compliance with the Financing Arrangement and fiduciary provisions of legal covenants.

113. The management structure and staffing MoFEC/COPCD/BoFED deployed for the PBS III program will continue to manage the implementation of the P for R operation. The World Bank will provide support to the program in addressing emerging implementation issues pertaining to fiduciary aspects. If needed the World Bank will support the program in TA to develop long term capacity.

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<sup>40</sup>JRIS Mission - Biannual JRIS Mission 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

## Annex 9: Environment and Social Systems Assessment – Addendum

### Executive Summary

1. Ethiopia continues to have one of the most robust policy and legal frameworks for environmental and social management and assessment in Africa. Although the necessary environmental and social management and assessment institutions and legal frameworks are largely in place, inadequate human resources and a frequent turnover of technical staff remain a challenge. Moreover, lack of coordination and integration between basic service sectors and oversight bodies, including the Ministry of Environment, Forest and Climate Change (MoEFCC) and the MoLSA exacerbate the challenges for effective implementation of environmental and social management and assessment. These challenges are more prominent in the regions, particularly in the emerging regions. The last two JRISs further articulated these challenges as: (a) lack of capacity, particularly at woreda level; (b) inadequate qualified staff; (c) lack of budget; (d) inadequate public participation; and (e) lack of coordination at all levels (linkages between the oversight bodies and basic sectors is generally weak at all levels).

2. Going forward, federal and local level consultations, and regional reviews in the emerging regions recommended to (a) build local capacity in environmental and social management, including training (b) strengthen awareness creation and advocacy activities, (c) strengthen environmental and social oversight institutions at all levels, (d) strengthen vertical and horizontal linkages between environmental and social oversight institutions and basic sectors, (e) provide regional and woreda institutions with environmental policy, legal frameworks and necessary technical guidelines, (f) avail financial, material and technological resources, and (g) establish and strengthen information, communication and data management system.

### Background

3. This *Incremental ESSA* reviews progress since the original ESSA, and (a) identifies any changes or updates to the systems in place for environmental and social management against the Core Principles of OP/BP 9.00; (b) assesses the capacity to operate the systems and systems performance; and (c) suggests actions for any necessary improvements to bring the operation of the system to the standard required to meet the Core Principles to be included in the PAP.

### Updates: Policy and Legal Framework for Environmental and Social Management

4. Ethiopia continues to have one of the most robust policy and legal frameworks for environmental and social management and assessment in Africa. The legislative commitment of Ethiopia to environmental and social management, and sustainable development objectives is highlighted by the inclusion of provisions in its Constitution; the Environmental Policy; the Conservation Strategy; and various proclamations, regulations and guidelines. In applying the commitment, Ethiopia has developed and adopted an extensive framework of environmental laws and regulations covering environment and social management and assessment. However, this framework is facing issues related to (a) harmonization and coordination among existing laws and regulations; and (b) the effective implementation and enforcement.

5. Since the original ESSA was completed in 2015, there have been only minor updates to Ethiopia's policy and legal framework for environmental and social management. Ethiopia's GTP II was released in May 2016 and in late 2016 a draft *Labour Safety and Health Promotion Policy* was released. As a signatory to multiple regional and international sustainable development agendas, the process of integrating the tenants and principles of these agendas into national plans, policies and strategies is underway.

6. **Labor Safety and Health Protection.** The Confederation of Ethiopian Trade Unions tabled a draft policy document concerning labor safety in work places in December 2016. The Union already finalized

the policy entitled “Labour Safety & Health Protection” for final approval. The draft document indicates that reporting mechanisms in cases of accidents are poor. Moreover, even if there are lists of workplace health concerns, there is no means of controlling and inspecting vulnerabilities. Although there is a legal framework in place by the MoLSA that mandates companies to form health and safety committees, most organizations do not follow the law, according to the report. The proposed policy is expected to serve as a blueprint for the amendment of the existing policy as well as the introduction of new legislation. It will also provide a mandate to organizations to allocate budgets to ensure the health and safety of their employees and give directions on how to enforce the insurance guarantees for all vulnerable occupations.

7. **SDGs.** The *Post-2015 SDGs*, the *Common African Position on Post-2015 Development Agenda*, *Agenda 2063 of Africa*, and the *Addis Ababa Action Agenda* have been embraced by the Government of Ethiopia. The principles and tenants of these international and regional agendas are currently being integrated and mainstreamed (‘domesticating’) into national plans, policies and strategies.

8. **GTP II.** Ethiopia’s *GTP* is a national five-year plan created by the Ethiopian Government to improve the country's economy by achieving a projected gross domestic product (GDP) growth of 11-15 percent per year from 2015/2016 to 2019/2020. It presents number of plans and policy goals, including for environmental and social management.

- **Climate Resilient Green Economy (CRGE) Strategy.** The green economy agenda will be rigorously mainstreamed in macro and sector plans, programs and projects, and will be regularly monitored and evaluated to ensure accountability at all levels. The CRGE Strategy will be implemented in all sectors to increase socioeconomic and ecological benefits of forests through improved forestry development, conservation and utilization. The GTP II notes the creation of an organizational structure which helps to realize the stated goals of the sector.
- **Natural Resources Conversation and Utilization.** To undertake crop and horticulture development with adequate moisture, the on-going natural resources conservation work has to be transformed to the next higher level. To this effect, targets are set to improve natural resource conservation and utilization in three areas of activities: rural land administration, watershed management and expansion of small scale irrigation.
- **Rural Land Administration.** The GTP plans to (a) provide land use certificates for 7.2 million male and female headed households that secure land use rights by carrying out the second level of certification for 28.6 million farmlands in 359 woredas; (b) prepare national rural land use master plan; and (c) prepare land administration and utilization master plan for each regional state.
- **Biodiversity Conservation and Equitable Benefit to the Community.** The GTP II states that the country’s access and benefits from the genetic resources will be protected, improved and its resources utilized for development through establishing legal licensing system on biodiversity. In general, guidelines and manuals that enable the community equitably benefit from the biodiversity and improve sustainable conservation of biodiversity will be prepared and effected. Capacity building and awareness creations will be given to communities and stakeholders to ensure access and equitable benefit sharing from the resources.
- **Ensuring Good Governance.** Good governance is a priority goal for the Government in GTP II, with plans to strengthen organized public participation and empowerment of the public in Government decision making and public service delivery. Government institutions will strengthen engagement with different sections of the public in their decision making processes in a sustainable, predictable and transparent manner.

- **Social Welfare and Security.** The GTP II sets out strategies for ensuring equal benefits of disabled and elderly people by conducting studies and research and through establishing social welfare system and expanding social security services to benefit vulnerable groups of society.
- **Gender.** The GTP II envisages strengthening the empowerment of women so as to ensure their active participation in the political, social and economic processes that are taking place in the country. All public development programs will be designed in such a way that they engage women and ensure their equity in the outcomes of such programs. During GTP II, the political empowerment of women will be effected by establishing mechanisms for women's equal participation and equitable representation at all levels of the political process and public life in society. A critical element in this endeavor is promoting women organizations that articulate and advance women's concerns, needs and priority agendas, and that influence public policies and actions.

### Updates: Capacity for Environment and Social Management

9. **Although the necessary environmental and social management and assessment institutions and legal frameworks are largely in place, inadequate human resources and a frequent turnover of technical staff remain a challenge.** Moreover, lack of coordination and integration between basic service sectors and oversight bodies, including the MoEFCC exacerbate the challenges for effective implementation of environmental and social management and assessment.

10. International experience shows that effective implementation and enforcement of environmental laws, regulations and standards is based on four intertwined principles:<sup>41</sup>

- Sound decision-making processes on environmental protection and natural resources management and conservation;
- Regular, effective and strong coordination among the institutions endowed with an environmental mandate;
- Reliable and open data and information management system; and
- Effective compliance monitoring and enforcement capacity.

11. **These principles, along with strengthening the capacity of institutions that share a mandate for environmental and social management in the basic service sectors, should be implemented.** Such strengthening will help tackle the issues connected to the weak implementation and enforcement of all environmental and social-related policies, laws regulations and standards.

12. **Despite the efforts made by the Government, it appears that little can be achieved to improve the overall environmental and social management and assessment without strong ties and effective cooperation between the various organizations involved at all levels of Government.** To enhance coordination, some steps may involve:

- Implementing joint activities to monitor and enforce active compliance through local institutions, particularly woreda level;

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<sup>41</sup> Ethiopia Country Environmental Analysis, November 21, 2016, working draft subject to internal review and World Bank management approval

- Collecting and sharing, relevant data and information and analysis on implementation, compliance and enforcement of environmental laws, regulations and standards; and
- Developing and implementing joint capacity enhancement programs, including training.

13. **ESIA Capacity Review.** ESIA capacity review for the basic service sectors at local level was undertaken in April and December 2015, covering all regions.<sup>42</sup> The main objective was to provide a review of the performance of ESIA at local Government level including identification of the challenges and opportunities and provide recommendations for improvements in the system. Document Review, Key Informant Interviews (KII), Focus Group Discussion (FGD), and Field Observations in sample woredas were the main methods employed for the assessment.

14. **The findings of the ESIA Capacity Review included that in relation to human resources, regional Environmental Protection Case Teams, where existing, are understaffed both in terms of quality and quantity.** There were significant numbers of vacant posts due to high staff turnover and lack of qualified experts in market. Many staff also have inadequate education in ESIA. In some Regions (Dire Dawa and Harari), there are no woreda Environmental Protection Case Teams or focal persons. In terms of *financial and material capacity*, there is a shortage of budget and logistic supplies. This has resulted ESIA being limited to a few investment projects only. Other findings include: low level of awareness by decision makers at all levels, inadequate public participation, poor quality ESIA reports, and conflict of interest due to organizational structure (for example, in some regions environmental and social regulatory function is organized under Bureau of Agriculture).

15. **Progress against DLIs and PAP.** There is good progress against the DLI improved environmental and social management capacity at woreda level. The DLI includes three DLRs. The status of these DLRs is outlined as follows:

- The ESMS OM completed (with some delay) in August 2016, and draft Training Modules have been developed.
- The training of 200 woreda and regional officials on the ESMS OM completed by early June 2017.
- Customization of the ESMS OM in at least 4 regions is expected by May 2018.

16. Progress on the PAP related to environmental and social management is slow (see Table 9.1). Concerted efforts are needed to complete the actions in the remaining program period.

**Table 9.1. PAP Progress**

Action	When	Responsible Body	Status <sup>43</sup>
Assign one environmental and social management specialist in the MoFEC as a focal person	Year 1	MoFEC	A focal person is assigned at Federal level.
Assign environmental and social management focal person in the BoFEDs and Woreda ESPES-supported sectors	Year 1	BoFED/Woreda council	Draft ToR for the Regional and Woreda focal persons is prepared
Undertake annual performance assessment of environmental and social management specialists	Years 1, 2, and 3	BoFED/WoFED	To be done after focal persons are assigned and start their duty

<sup>42</sup> ESIA Capacity of Local Government in Ethiopia, MoFEC/COPCD, December 2015.

<sup>43</sup> As reported by MOFEC/COPCD on December 28, 2016

Action	When	Responsible Body	Status <sup>43</sup>
Recognize better-performing Woredas with activities that demonstrate sound environmental and social management	Years 2 and 3	Regional Government	Performance evaluation manual to be developed; Agree on the manual with Sectors and Regions and evaluate based on the manual
Organize forums dedicated to reviewing the implementation of agreed actions on environmental and social management	Years 1, 2, and 3	BoFED/WoFED	To be done after the above activities are performed

17. **Bi-Annual Reviews of Safeguards and Risk Management Progress.** Bi-Annual JRIS missions are an opportunity to review the progress on safeguards and risk management, including reflections on common environmental and social risks in the basic sectors, key challenges and opportunities to address challenges. A review of Missions reflects slow progress on actions for safeguards and risk management with a number of actions being carried over. However, there has been some recent progress, including the ownership by the MoEFCC and Regional Environmental Protection Agencies with their participation in recent JRIS Missions. Indeed, the implementation of agreed actions require active participation by all the stakeholders, particularly woreda and regional environmental and social oversight institutions (Environmental Protection Agencies and Bureau of Labor and Social Affairs).

- **November 2015.** The Mission noted that there is no office at woreda level responsible for reviewing environmental and social impacts of projects in most of the regions. Additional challenges included: (a) lack of capacity, particularly at woreda level; (b) inadequate awareness; (c) inadequate public participation; and (d) lack of coordination at all levels. It was also reported that private and public sector projects are vetted for their environmental and social impacts, and some follow up is made on the implementation of agreed mitigation measures. The Mission agreed on the need to build local capacity in environmental and social management, including (a) training; (b) improve awareness on environmental and social issues, especially among decision makers; (c) strengthen public participation; and (d) strengthen vertical and horizontal linkages between environmental and social oversight institutions and basic sectors. In addition, a Pre-JRIS visit to two regions (Amhara and Somali) recommended the establishment and strengthening of institutions at all levels with a mandate and capacity to review potential environmental and social impacts of projects/programs, and follow up on the implementation of mitigation measures, as appropriate.
- **May 2016.** The JRIS Mission recognized the participation of MoEFCC in the JRIS for the first time as a positive development. It was also noted that COPCD/MoFEC should proactively involve MoEFCC (as the regulatory body for environment) in the implementation of the safeguards and risk management activities of ESPES and PBS-3 to ensure ownership and sustainability. Challenges identified again included: (a) lack of capacity, particularly at woreda level; (b) inadequate qualified staff; (c) lack of budget; (d) inadequate public participation; and (e) lack of coordination at all levels (linkages between the oversight bodies and basic sectors is generally weak at all levels). The Mission agreed on the need to (a) build local capacity in environmental and social management, including training; (b) undertake awareness promotion and advocacy activities; (c) strengthen environmental and social oversight institutions at all levels; (d) strengthen vertical and horizontal linkages between environmental and social oversight institutions and basic sectors; (e) provide regional and woreda institutions with environmental policy, legal frameworks and necessary technical guidelines; (f) avail financial, material and technological resources; and (g) establish and strengthen information, communication and data management system.

- **December 2016.** The Mission again benefited from the participation of MoEFCC in addition to Regional Environmental Protection Agencies. The Mission highlighted the need to coordinate with and use CE mechanisms, such as GRM, to ensure effective implementation of safeguards standards. The Mission discussed the importance of strengthening coordination between oversight bodies and service delivery sectors to help mainstream environmental and social issues in service delivery, and manage potential risks and emphasized the need to finalize the ESMS OM by organizing a validation workshop with all stakeholders before the next JRIS. In addition, strengthening the capacity and commitment of actors to undertake a genuinely consultative, inclusive and responsive safeguards design and operationalization was agreed to be critical to mitigate negative impacts of development projects.

18. **Safeguards Technical Working Group.** A Safeguards Technical Working Group (STWG) is being established with the objective of providing coordinated technical support to the Government of Ethiopia, Development Partners supporting basic service delivery, and other relevant stakeholders to operationalize safeguards and risk management and promote socially and environmentally sustainable decentralized basic service delivery.

19. The major tasks of STWG include: (a) provide advice and support on the coordination of safeguards and risk management activities among the Government and DPs; (b) provide advice on building capacity on environmental and social management at local level, particularly in the basic sectors; (c) provide advice and support in monitoring the progress of the implementation of agreed actions for safeguards and risk management; (d) support the institutionalization and mainstreaming of environmental and social issues in the basic sectors; (e) share lessons and best practices; and (f) share information and coordinate with other TWGs in the basic sectors, as appropriate.

20. The first meeting of the STWG on 01 February 2017 reviewed the draft ToR, and agreed on immediate actions including sharing the draft ToR with the basic sectors and oversight bodies, and convening the second meeting as soon as possible.

## **Findings from Rapid Assessment of Environmental and Social Management in Emerging Regions**

21. **Policy and Legal Framework for Environmental and Social Management (ESM).** The Environmental Protection, Mines, Forest and Energy Development Agency (EPMFEDA) is the oversight body for environmental and social management and assessment in Somali region. It has issued directive and guideline to support ESIA process. The directive (1/2007 E.C) categorizes projects as requiring full ESIA, preliminary/partial assessment and projects that do not require an assessment. In 2017, the Agency developed a guideline for the preparation and review of ESIA reports. This is expected to strengthen vetting processes. Somali region BoFED introduced, a practice made effective as of 2008 EC, an approval certificate from *Environmental Protection, Forest, Mining and Energy Development Agency*, as a requirement before the release of a project fund. Benishangul-Gumuz region has also adopted the Federal EIA/EMP, though application is limited to review of EIA documents prepared by private investments. In Afar, regional environmental and social assessment guideline was prepared in local languages, Afar and Amharic, in 2016 based on the federal EIA guidelines.

## **Updates to Capacity for Environment and Social Management**

22. **Basic sectors and BoFED.** In all the emerging regions, BoFED plays a significant role in coordinating basic sector service providers in the planning and implementation of projects. A unit responsible for gender development is available in all the regions' organizational structure, where as a unit responsible for environment is yet to be established (Somali region is revising its organizational structure to include a unit). However, awareness on the importance of environmental and social management,

including gender and vulnerable groups varies between the regions. In Somali, it is relatively strong whereas in Gambella, though there are gender and vulnerable group specialists assigned in sector offices, awareness on ESM in sectors other than health and agriculture is limited. In all the emerging regions, coordination and networking between basic service sectors on ESM is also very low. BoFED is responsible for facilitating the implementation of FTA and SA: pre-budget and budget review discussions are attended by representatives from elders, religious leaders, kebele administration, youth and women.

### **Oversight bodies**

23. These include:

24. **Environmental and social management.** The organizational arrangement of these bodies varies in the regions. In Somali region, EPMFEDA is an agency mandated with the responsibility to enforce laws and regulations on environmental and social management and assessment. In Gambella, environment protection and land use is a core process under the Bureau of Agriculture. In Afar the environment protection, land use and administration is organized as an agency. As a result, the agency officials feel that they are not given equal attention and power as the other bureaus. In Benishangul-Gumuz, Environment, Forest, Land Use and Administration is organized a bureau, and it is a member of the regional cabinet.

25. **In all regions, there is an awareness on the need to strengthen environmental and social management and assessment practices by the regulatory institutions.** However, in practice, the Somali and Benishangul-Gumuz regions are in a better position because they have established units to review and approve ESIA reports and carry out environmental audit on projects. In Somali, the agency has revised its organizational structure to transform the agency to ‘bureau’ and devolve power and responsibility to woreda level. Currently, at woreda level, the duties and responsibilities of the agency is delegated to agriculture office.

26. **GRM.** Grievance and Compliance Redress Commission is a structure unique for Somali region and it has been active since 2013 and is organized around four core processes: complaint lodging, compliance/grievance redressing process for vulnerable and unreserved groups (including women, elderly, disabled, and children), and awareness and training. A grievance redress committee, composed of representatives from the local administration, education, health, women and child affairs, and the community (reflected at every level), is active at woreda level. (at kebele/village level the members are drawn from kebele administration, teachers, DAs, HEWs, and the community).

27. In Gambella, most of the public grievances are presented to the higher officials of the different sectors, the Woreda or zonal administration or to the court. To look into cases that are not satisfactorily handled by the lower administrative bodies, the president office has established an appeal and petition issues investigation and decision making core process. The core process was established in 2015 based on the experience of the Southern Nations, Nationalities and Peoples Regional state. The office does not directly interfere with the routine implementation of the grievance handling mechanism followed by woredas or zones but attempts to review the grievance handling process of the appeals.

28. **Grievance redress task in Afar is organized as one core process in the regional administration.** The core process was created in ECY2005. However, as there was frequent staff turnover, there was limited activity.

29. **In Benishangul-Gumuz, Good Governance, Complaint and Grievance office is one of four offices within the President’s office.** The office is structured at regional, zonal and woreda levels. Equipped with mid-level professionals, the role of the office is limited to examining grievances and recommendation of possible solution. Responses at each level could be appealed to higher level but first it



has to be looked at by an administrator of same level (kebele, woreda, zone and the president). Complaints that reach the president's office are debated upon by the president's advisors. The existing system does not include representatives from other actors or community. Most cases are related to boundary conflicts on land between investors and small land holders, compensation (valuation and delay on payments) and on use of grazing land. Grievance as a consequence of poor service delivery by basic service providers is directly addressed by the responsible sector though none of the sectors have a set system to entertain complaints.

30. **Bureau of Woman and Child Affairs.** In all regions, the bureau is organized around three core processes: gender development, empowerment and child protection. At woreda level, though similar structures exist, most positions are vacant (due to shortage of qualified personnel). There are good practices in some regions. For example, in Benishagul-Gumuz, the bureau has signed MoU with all sectors to include women and child affairs in their plan. Even though there is overall improvement in integration, inadequate understanding by leadership in sector offices compounded with irregular monitoring and follow up has limited its effectiveness.

31. **Bureau of Labor and Social Affairs.** In Somali, the bureau focuses on creating awareness to the public and investors on the rights and responsibilities of workers and employers through mass media. The federal civil service and labor law proclamations are employed at regional level to ensure basic safety of workers. However, the system in place is only responsive to demand for reconciliation between conflicting parties. At woreda/district level, Labor and Social affairs is merged with Capacity Building office.

32. In Gambella the regional office is organized at agency level, and at woreda level, it is represented by one person in the woreda administration office. However, in terms of coordination with other sectors, the agency has some joint activities with nutrition cluster offices (labor and social affairs, health, women and children, and agriculture). These include reviewing the activities carried out by the responsible sectors related to breast feeding and nutritional food for pregnant women. In all regions, there is a very limited experience of working with the basic sectors, and monitoring and supervision on workers' safety issues is irregular and inadequate largely due to shortage of human resources and logistics.

33. **Regional Level human, physical and other capacities (Basic Sector Bureaus).** The capacity at the region level is characterized by shortage of skilled human resource, high turnover, and shortage of vehicles/transport facilities. Absence of career development opportunities and incentives are the main reasons for high staff turnover in all sectors. The environmental and social management arrangement and practices in the basic sectors at region level are summarized below:

- **Health.** In all regions, a sub-unit in the bureau is responsible for hygiene and sanitation. In Somali, there is an environmental health expert who is responsible for environmental and social management and assessment issues within the sector, but in the other regions, there is no such an expert in the unit. In all regions gender experts are responsible for gender and vulnerable groups.
- **Education.** There is no environmental and social development expert assigned at regional level. Education supervisors are usually responsible for ESIA including gender and vulnerable groups. The situation is similar in all regions
- **Water Resource Development.** In all regions, where One WaSH program is available, Safeguards specialists, responsible for environment and social management, are assigned. This activity is relatively better organized in Somali region because water supply (drinking as well as irrigation) is given priority by the regional government.
- **Agriculture and Natural Resource Development.** As the livelihoods in the regions are different; the structure of the bureaus has slight difference. In Somali and Afar regions the bureau is split into

agriculture and natural resources and pastoralist and livestock development. In Somali, the bureau is revising its organizational structure to introduce an independent unit responsible for ESM. Currently, natural resource development experts are responsible for ESIA in all regions. There are no social development expert/focal persons in the bureau in all regions.

- **Rural Roads Authority.** In all regions, ESIA is prepared for all road development projects constructed by the federal ERA, based on the Ethiopian Government Environmental Impact Assessment (EIA) guideline. However, the regions do not have independent unit responsible for ESIA. In the case of Somali region, the authority uses resettlement policy framework prepared by ERA where only 'legal' owners are eligible for compensation. Most road projects are supported by detailed resettlement action plan.

34. In general, the assignment of gender focal persons in all sectors is a positive development, and with some capacity building, these staff may handle other ESM issues in collaboration with the oversight bodies.

### **Approach to Public Participation/Consultation**

35. In all the emerging regions, it was reported that basic service providers including Health, Education and Water carry out community consultation at project level, using sectoral guidelines. At woreda or kebele level, community initiates demand for a specific service. The kind of service required, the location and possible beneficiaries are discussed by community before official request is made to respective service provider. Experts at basic sector level technically assess the appropriateness of the proposed site against the design capacity. There are also cases where woreda sectoral offices make the plans and consult the community representatives on the relevance of the project and identification of construction sites.

36. In Somali region, EIA and One WaSH guidelines are used by regional bureaus for bigger projects within their jurisdiction. For roads, they use a guideline developed by ERA. Learning from the FTA – SA practices, and supported by agricultural/environment desk, the visited woredas have strengthened their community engagement processes. Community Mobilization Guideline is being revised by the Regional Agricultural and Natural Resources Development Bureau.

37. In Gambella, as there is a perception that land is not a scarce resource in the region, community consultation on land acquisition is taken lightly. Most of the times it refers to identifying preferred site by the community. However, when consultations are made the participation of women is reasonably good. For example, as observed from the site visits, kebele executive committees have five women and six men members.

38. Though there are improvements in public participation and consultation, there are reports where inadequate consultation as well as coordination are causing some problems. For example, in Guleale woreda of Afar, a school and teachers' residence were constructed far apart. This has created inconvenience to the teachers because they have to walk long distances in extreme weather.

### **Conclusions**

39. While the efforts made by the Government of Ethiopia to develop environmental and social policies and create regulatory institutions at various levels are commendable, the enforcement and application of these policies and regulations remains limited. MoEFCC, being responsible for the enforcement and application of the policies and regulations, should cooperate closely with basic service ministries to take the necessary actions for their implementation. MoEFCC should collaborate with the MoLSA and Ministry of Women's Affairs, particularly on social issues and vulnerable groups.

40. Going forward, MoEFCC has to develop a Capacity Building Plan for improved environmental and social management in the basic sectors in a participatory manner involving all stakeholders. The Plan should be informed by the ESIA capacity assessment and the ESMS OM, which were prepared under the PBS and ESPES. The Plan may include the following:

- Defining resources and activities to enhance existing capacities within MoEFCC, basic sectors and agencies endowed with an environmental and social mandate to implement a set of environmental and social management activities;
- Developing local capacity, particularly at woreda level, for environmental and social management;
- Strengthening environmental and social oversight institutions at all levels;
- Strengthening vertical and horizontal linkages between environmental and social oversight institutions and basic sectors; and
- Establishing and strengthening information, communication and data management system.

41. The DLI, *improved environmental and social management capacity at woreda level*, remains relevant because improvement in ESMC at local level is still a key indicator for enhanced environmental and social safeguards.

42. **DLRs:** The following two additional targets are included for the AF:

- At least 100 Woredas have environmental and social impact assessment (ESIA) system in place (with institutional setup, human resources and vet projects/programs for environmental and social impacts) – by November 2019; and
- At least 250 Woredas, cumulative, have environmental and social impact assessment (ESIA) system in place (with institutional setup, human resources and vet projects/programs for environmental and social impacts) – by November 2020.

43. **PAP:** The following actions are agreed:

**Table 9.2. Environmental and Social Actions in the PAP**

Action Description	Due Date	Responsible Party
1. Strengthen coordination between basic service sectors and oversight bodies on environmental and social management: <ul style="list-style-type: none"> <li>• Semiannual (twice a year) technical meetings to review progress at regional level Annual forums dedicated to reviewing the implementation of agreed actions at federal level with participation from regions</li> </ul>	Continuous AF Year 1, 2 and 3	MoEFCC/Regional environmental protection agencies
2. In each BoFED, assign Channel One environmental and social management focal person	Original ESPES Year 3	COPCD/BoFED
3. Customize the ESMS OM in five regions (Amhara, Oromia, SNNP, Tigray and Harari) and the two city administrations (Addis Ababa and Dire Dawa)	AF Year 2 and 3	BoFED/Regional environmental protection agencies

## Consultation

44. The Incremental ESSA consultation workshop aimed at reviewing regional findings and enriching the draft report was held for half day in Addis Ababa, Ethiopia on May 29, 2017. The draft report was prepared based on field level assessments in the four emerging regions, desk review of relevant documents and related studies and consultation with relevant federal and regional sector bureaus. The key findings and conclusions of the report were presented during the workshop with a view to solicit comments and inputs from the participants.

45. Participants were drawn from the four emerging regions (two from regional Environmental Protection Agency and one from regional Finance and Economic Development Bureau), federal basic sector ministries, and the Ministry of Environment, Forest and Climate Change, both federal and regional levels. All regions were represented including the five basic sectors.

46. The participants commended the efforts made to assess the environmental and social management capacity in the four emerging regions, and the level of consultation. They agreed with the findings, main conclusions and recommendations of the Incremental ESSA. Comments were provided, particularly on the proposed ESSA actions to be included in the ESPES AF PAP. After deliberations and agreement on the suggested changes to the proposed actions in the PAP, the workshop endorsed the Incremental ESSA.

**Table 9.3. Summary of key findings from the field assessment in the emerging regions (Afar, Benshangul-Gumuz, Ethiopia Somali and Gambella regional states) and areas for strengthening system in relation to OP/BP 9.00 Core Principles**

<b>Core principle 1: General principles of Environmental and Social Management</b>	
Current System	Area for Strengthening system
<ul style="list-style-type: none"> <li>Awareness on environmental and social management has improved, but knowledge has yet to devolve to woreda level;</li> <li>ESM practices vary from sector to sector and region to region - Somali is region performing better by strengthening EIA/ESM tools; introduced a system where EIA clearance is required before release of project fund/budget;</li> <li>In Benishangul-Gumuz EIA practice is limited, the focus is more on land administration</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen skill and knowledge of experts and the leadership; enhance capacity of woreda by hiring more professionals; consider incentives (remuneration, housing, professional development) to abate high staff turnover;</li> <li>Build a system to increase cross sectoral collaboration and support.</li> </ul>
<b>Core principle 2: Natural Habitats and Physical and Cultural Resources</b>	
Current system	Area for Strengthening system
<ul style="list-style-type: none"> <li>All the emerging regions do not have adequate information on natural resources: accessibility is a challenge due to size of the regions and inadequate road network</li> <li>Limited awareness on the need to integrate cultural resources into EIA, mainly due to limited knowledge on cultural resources.</li> </ul>	<ul style="list-style-type: none"> <li>Awareness creation at all levels of regional governments</li> <li>Development of laws and regulation to preserve natural habitats and cultural resources</li> <li>Skill and knowledge building on identifying/ inventory of natural habitat and cultural resources including pastoralist cultures.</li> <li>Information database and early warning system to protect natural resources</li> </ul>
<b>Core principle 3: Public and Worker Safety</b>	
Current system	Area for Strengthening system
<ul style="list-style-type: none"> <li>Positive developments in adapting federal rules and regulations,</li> </ul>	<ul style="list-style-type: none"> <li>Awareness creation should refocus on the public and leadership and include all sectors;</li> </ul>

<ul style="list-style-type: none"> <li>Regional Bureau of Labor and Social Affairs (BoLSA)/ Woreda Office of Labor and Social Affairs (OLSA) activities largely limited to awareness creation and conflict resolution;</li> <li>Federal laws and regulations are used (does not reflect regional differences) <ul style="list-style-type: none"> <li>Basic service sectors are governed by the Federal Civil Servants Proclamation 515/2007,</li> <li>Labor law proclamation 377/2003</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Skill and knowledge development to proactively guide practices;</li> <li>Rights and responsibilities of employee and employers;</li> <li>Review and adoption of existing law/regulation to regions</li> </ul>
<b>Core principle 4: Land Acquisition</b>	
Current system	Area for Strengthening system
<ul style="list-style-type: none"> <li>Issues related to land acquisition are limited due two reasons: (1) land is not a scarce resource in these regions, (2) communal lands are used for construction of basic service facilities.</li> <li>ERA's practice is replicated for land expropriation purposes, which only compensates 'persons with legal right'.</li> <li>Large scale farming and quarrying are increasing land conflict in Benishagul-Gumuz region</li> </ul>	<ul style="list-style-type: none"> <li>Develop /adopt regional compensation laws reflecting regional realities.</li> <li>Strengthen GRM to extend its coverage into issues related to land</li> </ul>
<b>Core principle 5: Vulnerable Groups</b>	
Current system	Area for Strengthening system
<ul style="list-style-type: none"> <li>Awareness to engage vulnerable groups (including women, children, elderly &amp;PWD) has improved; examples include: <ul style="list-style-type: none"> <li>Female members are included in committees at kebele levels</li> <li>Female participation has increased in Budget Literacy Training (BLT)</li> </ul> </li> <li>FTA- SA practice has opened opportunities for dialogue/discussion with marginalized groups, disabled and elderly at district and kebele levels;</li> <li>Some actions taken by basic service sectors: <ul style="list-style-type: none"> <li>Health –significant number of HEW are female (in Somali region) Education –Separate toilets for girls and boys; modification of buildings to create access to PWD</li> <li>Agriculture - Focus on female households in land registration practices (Benishangul Gumuz)</li> </ul> </li> <li>Organizing elders and PWDs and supporting them through income generating activities.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen FTA- SA practice to cover more districts and kebeles;</li> <li>Universal access to all should be practiced not only in schools but in other basic sectors;</li> <li>Strengthen awareness on the benefit of women's involvement in development</li> <li>Support women's empowerment through skill and knowledge development</li> </ul>
<b>Core Principle 6: Social Conflict</b>	
Current system	Area for Strengthening system
<ul style="list-style-type: none"> <li>Intermittently conflicts flare between ethnic groups, mainly in Gambella</li> </ul>	<ul style="list-style-type: none"> <li>Create opportunities for ethnic groups to communicate and reduce tensions</li> <li>Complement the formal conflict resolution by reviving traditional institutions.</li> </ul>

## Annex 10: Modified Program Action Plan

Action Description	Due Date	Responsible Party	Completion Measurement	Original or Revised?
<b>Sectors and block grant system</b>				
Decentralized resource allocation: (a) Government hires local consultant to understand how regions allocate resources to Woredas, supported by TA from the World Bank; (b) Organize fora/forum for sharing of experiences among the regions on their block grant system allocation mechanisms; (c) Take action, as needed, to ensure that Woredas has sufficient resources to delivery basic services.	Undertake study AF Year 1, undertake forum AF Year 2, take any remedial action Year 3	MoFEC/World Bank/Federation Council	Analysis undertaken and at least one forum conducted.	New
Undertake targeted social and behavioral change communication intervention to kebeles and households in bottom 20% of Woredas (list included in Technical Assessment) for improving health, education and nutrition outcomes	Develop ToR AF Year 1, conduct campaign AF Year 2	MoE, MoH in collaboration with MoFEC and Regional Sector Bureaus	Campaign covering health, education and nutrition outcomes carried out in bottom 20% of Woredas	New
Pilot demand side activity helping households access education services (for example, school feeding, child grants for schooling, or conditional cash transfers) in bottom 20% of Woredas	Develop ToR AF Year 1, implement pilots AF Year 2 and 3	MoE/Region and Woreda Sector Bureaus	At least one pilot activity undertaken.	New
Undertake study on the constraints to Penta 3 vaccine coverage in bottom 20% of Woredas and propose actions for how to boost it	AF Year 1	MoH	Report with evidence of achievement available	New
Revise a) Integrated Refresher Training (IRT) modules for HEW and b) PSNP frontline service provider training modules aligning with NNP2	AF Year 1 and 2	MoH and MoANR	IRT and PSNP nutrition moduled revised	New
Introducing a system within UNIS to disaggregate nutrition data by PSNP household status	AF Year 2	MoH	It is possible to disaggregate data by PSNP status	New
Strengthen sectoral collaboration for service delivery to better tackle intersectoral challenges at the federal and regional levels (supported by the SDS and informed by May 2017 JRIS findings)	AF Year 1	MoFEC	Report available describing how sector collaboration is strengthened	New
Conduct training to Woreda level staff in Afar and Somali on collection of	Develop ToR AF Year 1,	MoE, MoH and MoA&NR	Training completion	From original;

Action Description	Due Date	Responsible Party	Completion Measurement	Original or Revised?
EMIS and HMIS data	conduct traning AF Year 2		report available	delayed but still critical
Undertake countrywide study and understand cost of basic services at the national level	Original ESPES Year 3	MoFEC	Report available	From original; delayed but still critical
<b>Sustaining Citizens' Engagement for Better Basic Service Delivery</b>				
Preparation of FTA guideline for the regional sector bureausmanual	AF Year 2	MoFEC	Guideline document available	New
Conduct GRM training for at least one Woreda officer and one regional GRM officer in 9 regions and 2 city administrations	AF Year 1 and 2	EIO	Training completion report available	New
Undertake review of progress in FTA-SA linkage implementation	AF Year 3	MoFEC	Report available	New
<b>Environmental and social management</b>				
Strengthen coordination between basic service sectors and oversight bodies on environmental and social management: (a) Semiannual (twice a year) technical meetings to review progress at regional level; (b) Annual forum dedicated to reviewing the implementation of agreed actions at regional level with participation from Woredas	Continous AF Year 1, 2 and 3	MoEFCC/Regional environmental protection agencies	Report from technical meetings and forum available	New
In each BoFED, assign Channel One environmental and social management focal person	Original ESPES Year 3	COPCD/BoFED	Report documenting assignment available	From original; delayed but still critical
Customize the ESMS OM in five regions (Amhara, Oromia, SNNP, Tigray and Harari) and the two city administrations (Addis Ababa and Dire Dawa)	AF Year 2 and 3	BoFED/Regional environmental protection agencies	Manual customized	New
<b>FM</b>				
<b>Internal control</b> For repetitive internal control weaknesses, institute strong M&E system and take accountability measures to ensure that actions are taken; For long outstanding Advances, track long outstanding balances and take action to resolve them;	AF Year 1, 2 and 3	MoFEC and BOFEDs	Report with evidence of achievement available	New
Address system challenges that improve internal controls: (a) Finalize and rollout a payroll application software; (b) Make sure existing property	a) AF Year 1 and 2	MoFEC and BOFEDs	Report with evidence of achievement available	This includes unperformed actions of the last PAP

Action Description	Due Date	Responsible Party	Completion Measurement	Original or Revised?
management record system is operational at local level. Find automation options including replication of existing efficient computer systems (if any). (c) Improve websites of BoFEDs to improve disclosure to address PEFA concerns; (d) Sustain and manage IBEX system at woredas effectively.	b) AF Year 1, 2 and 3 c) AF Year 2 d) AF Year 1, 2 and 3			in regards to FM systems
<b>Internal Audit</b> (a) Target reforms that address the internal audit challenge at decentralized level should be developed; (b) Regions should fill vacant posts of internal auditors at local levels; (c) Build capacity of auditors on an ongoing basis through regular trainings	AF Year 1, 2 and 3	MoFEC and BOFEDs	Report with evidence of achievement available	New
<b>Procurement</b>				
Maintain a minimum of 15% Woreda procurement audit coverage annually in each region (Oromia, Amhara, SNNP, Tigray, Somali, B. Gumuz, Afar, Gambella, Harari) and reported to regional cabinet	AF Annual	FPPPA/ BoFEDs/ Regional Regulatory Bodies	Report with evidence of achievement available	Original
Strengthen staffing and provide resource (budget, transport, and so on) for regional regulatory bodies to carry out their function commensurate with the level of procurement spending in the region	AF Annual	BoFEDs	Report with evidence of achievement available	Revised from original
Customize procurement performance measurement guideline and start data collection in Gambella, Afar, B. Gumuz, Somali and Harari regions	AF Year 1 and 2	BoFEDs/ Regional Regulatory Bodies	Report with evidence of achievement available	New
Customize, rollout and implement simplified procurement directives and procedures on Woredas	AF Year 1 and 2	FPPPA/ BoFEDs	Report with evidence of achievement available	Original
<b>F&amp;C and Complaint Handling</b>				
Provide ToT to REACCs by FEACC; REACCs conduct cascaded training to Woredas on record keeping and reporting of F&C cases	AF Year 1, 2 and 3	FEACC	Training completion report available	New
Inform the public through mass media (Regional) on complaint handling procedures	Continuous AF Year 1, 2 and 3	FEACC and REACCs	Report from REACCs on use of media	From original; delayed but still critical



## **Annex 11: Modified Implementation Support Plan**

1. Given the growing size of the program, providing support to the implementing agency MoFEC continues to be essential. The support will involve extensive dialogue with MoFEC in monitoring the progress and achievement of the PDO, due diligence on the DLIs and verification, and ensuring smooth implementation of the PAP. Since the PforR part of 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.
2. The World Bank's staffing deployed for the ESPES program will continue to manage the implementation of the AF. The field-based presence of the task team leader and co-task team leader will continue with extensive support from the task team members. 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 block grant system and related DLI; the Governance Global Practice on fiduciary DLIs; the Health, Water, Agriculture, and Education Global Practices on delivery of respective services and due diligence on related DLIs will be sought. Senior Financial, Procurement and Safeguards specialists are also based in the Ethiopia country office and will provide support and oversight to the implementation of ESPES AF.
3. **Supervision.** 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. In December 2016, the thematic focus of the JRIS was CE, in May 2017 the focus was Financing and Sustainability of basic services. While each JRIS covers all aspects of project implementation the thematic area will benefit from specific attention and field visits on a rotational basis.
4. In addition, Development partners have agreed that the service from the Service Delivery Secretariat (Donor Coordination Team) will be extended to support the implementation of Donor supported service delivery programmes including the ESPES AF. The Secretariat will provide technical support the client to deliver on the agreed DLIs and PAP, although the responsibility fully rests with the client. It has also included a number of overall strategic areas in its work plan such as exploring options for mainstreaming CE in Government operation, and providing support for sectoral coordination in service delivery. The AF will benefit from the strategic dialogue with the Government on these areas.
5. The secretariat will also 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. The regular bi-monthly meetings will continue to be conducted with affiliated development partners to discuss and resolve strategic issues related to the program. The Government (COPCD) 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 development partners raise and discuss issues related to the implementation and management of the ESPES program.
6. **Areas of enhanced supervision.** Based on lessons from the ongoing ESPES program two areas will benefit from more enhances supervision and support. The first area is implementation of the PAP activities. To ensure smooth and timely implementation of these activities the Government will submit to the World Bank a semi-annual ISR on the agreed PAP activities. The task team will then discuss any issues with the Government to resolve any potential bottlenecks or delays. The World Bank will also closely monitor the quality of the DLI verification process and provide TA to the implementing agency and verifiers as needed to strengthen the independence and rigor of DLI verification each six months.

### Main Focus of Implementation Support (Core Skills)

Time	Focus	Skills Needed	Resource Estimate
First 12 months	Overall coordination across basic services and local-level accountability system Coordination of the monitoring and verification process of DLIs Support the implementation of the PAP in the areas of FM, procurement, public sector governance, CE, M&E, and ESMS Review of progress toward the achievement of the PDO and DLIs and implementation of the PAP Fiduciary support to IPF	<b>World Bank</b> Senior economist, task team lead Senior social protection specialist, co-task team lead Social protection specialist (CE/safeguards specialist) Senior FM specialist Senior Procurement specialist Senior Public sector specialist DfID seconded staff (HD specialist)  <b>SDS</b> Coordinator (HD specialist) Senior social protection specialist (M&E specialist) Senior social protection specialist (Safeguards specialist) Senior Operations officer (Procurement specialist) Economist	25 Weeks 35 Weeks 15 Weeks  12 Weeks 12 Weeks 10 Weeks 10 weeks  10 Weeks 8 Weeks 15 Weeks  15 Weeks 10 Weeks
12–36 months	Coordination of the monitoring and verification process of DLIs Support the implementation of the PAP in the areas of FM, procurement, public sector governance, CE, and M&E Review of progress toward the achievement of the PDO and DLIs and implementation of the PAP Fiduciary support to IPF Support preparation of completion report	<b>World Bank</b> Senior economist, task team lead Senior social protection specialist, co-task team lead Social protection specialist (CE/safeguards specialist) Senior FM specialist Senior Procurement specialist Senior Public sector specialist DfID seconded staff (HD specialist)  <b>SDS</b> Coordinator (HD specialist) Senior social protection specialist (M&E specialist) Senior social protection specialist (Safeguards specialist) Senior Operations officer (Procurement specialist) Economist	50 Weeks 60 Weeks  24 Weeks 24 Weeks 24 Weeks 20 weeks 10 weeks  20 Weeks 16 Weeks 30 Weeks  30 Weeks 30 Weeks

### 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	World Bank
Co-task team lead - Program Management/CE focus	35	LRS, based in CO	World Bank, CE focus
Lead PFM specialist	6	IRS, based in CO	World Bank
Social protection specialist/CE and social safeguards focus	15	4	World Bank
DfID seconded staff (HD specialist)	10	Seconded, based in CO	DfID
Senior FM specialist	12	LRS, Based in CO	World Bank
Senior Procurement specialist	12	LRS, Based in CO	World Bank

<b>Skills Needed</b>	<b>Number of Staff Weeks (Year 1)</b>	<b>Number of Trips</b>	<b>Comments</b>
Senior Public sector specialist	10	LRS, Based in CO	World Bank
Senior social protection specialist (HD specialist)	10	LRS, based in CO	SDS
Senior social protection specialist /safeguards	15	Based in CO	SDS
Senior social protection specialist/M&E	8	LRS	SDS
Senior Operations officer/procurement	15	LRS	SDS
Senior education specialist	2	LRS, Based in CO	World Bank
Program leader/health specialist	2	IRS, Based in CO	World Bank
Senior agriculture specialist	1	IRS, Based in CO	World Bank

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