1. Country and Sector Background

Ethiopia has now seen nearly two decades of public sector capacity building based upon the development of a long term strategy of “state transformation” that continues to the present day. Capacity building is characterized by the national and federal regional leadership’s recognition and appreciation of the need for institutional capacity building to act as a spur to development.

2000 onwards spawned a home-grown response to capacity building. In 2001 the National Capacity Building Program (NCBP) was inaugurated and the Ministry of Capacity Building (MCB) was established.

2003 onwards has seen a scaling up of state transformation. In May 2003, 6 core public sector elements of NCBP were scaled-up into a 5 year program called the Public Sector Capacity Building Program (PSCAP). The World Bank/Multi-Donor PSCAP Support Project was inaugurated in 2004 to meet the funding needs of PSCAP.

PSCAP has seen considerable progress as listed below under the three main expected outcomes of PSCAP

1. Improving the scale, efficiency and responsiveness of service delivery at federal, regional and local levels. PSCAP has made a significant contribution in improving the quality and efficiency of public service delivery. This was the result of contributions from several sub-
programs. The nation-wide Tax System Reform Sub-Program has increased the predictability and adequacy of financial resources for service delivery. Tax effort by federal and regional revenue offices have almost doubled during the project period. The Civil Service Reform Sub-Program initiated the Business Process Re-engineering which has been instrumental in bringing about attitudinal change across the public service and embedding a strong focus on effective and accountable public service delivery. This has led to significant reductions in processing time, the development of service standards and improvements in the overall quality of services. The Information and Communication Technology Sub-Program supported the establishment and strengthening of the Woreda-net which is becoming instrumental in tackling the problem of information exchange vertically and horizontally throughout the different levels of administrative structures. The Urban Capacity Building Sub-program developed the urban land information system and is transforming how land is managed by urban local governments. The Justice System Reform Sub-Program is using a wide range of IT products to improve access, efficiency and transparency of the judiciary. The expenditure and management component as part of the Civil Service Reform Sub-Program has made the financial reporting easy, timely, and reliable. Skills development has progressed very well across all sub-programs and contributed to better service delivery.

2. **Empowering the citizens to participate more effectively in shaping their own development** Positive elements have been introduced to empower citizens to participate more effectively in matters affecting their development. This was made possible through The Woreda and Kebele Good Governance Package identified as the main tool to enhance good governance including participation, consensus building, responsiveness, transparency, accountability, equity and fairness, rule of law, efficiency and effectiveness. Some immediate developments that have enhanced the empowerment of the citizens to participate effectively in their own development are: the establishment of over 80 Multi-Purpose Community Tele-Centers and ongoing development of over 300 more; increased access to government information and many regions reporting significant increases in the number of people who are demanding better service; increasing acceptance on the part of public servants and officials on the need to listen to, be transparent and relevant to the citizens.

3. **Promoting good governance and accountability** has improved. Public access to basic information in written form such as budgets, audit reports, strategic plans, tax assessment and services has improved significantly. The majority of Woreda Council meetings are now open to the public and the existence of institutional focal points where suggestions and complaints can be made is also widely known. There has also been progress in the extent of readiness of local administrators to listen to the public. The Citizen’s Report Card survey showed that only 4% of households reported making an extra payment outside of legal requirements for any government services. These developments have been further promoted through the establishment of Client Information Counters and Websites and the employment of over 3104 information/case officers; the establishment of over 430 Client Information Counters in all three tiers of courts across the nation; continuous training on both the good governance package and business process reengineering making public servants and officials more customer-focused and setting clear service standards for accountability and participation; and extensive public awareness campaigns on Government policies and strategies to over 2 million citizens.

However, **PSCAP funding has fallen $185million short of its initial funding target** and this has prevented the full implementation of the project.
2. Project Objectives

There are no changes in the objectives as the project is a continuation of the existing program. Hence the objective of the project remains to: To improve the scale, efficiency, and responsiveness of public service delivery at the federal, regional, and local level; to empower citizens to participate more effectively in shaping their own development; and to promote good governance and accountability. The Key indicators of successful outcomes listed above also remain unchanged.

3. Project Description

The Project provides capacity building support to sub-national local governments through six sub-programs:

1. *The Civil Service Reform Program (CSRP)* promotes the development of an efficient, effective, transparent, accountable, ethical and performance oriented civil service. (Expenditure Management has since been separated into an additional distinct sub-program);

2. *The District-level Decentralization Program (DLDP)* deepens the lower tiers of regional government, to institutionalize decision-making processes at the grassroots level with a view to enhancing local participation, promoting good governance and improving decentralized service delivery.

3. *The Justice System Reform Program (JSRP)* promotes the rule of law as well as the efficient and effective functioning of the justice system as part of Ethiopia’s broader democratization and private sector development processes. (Court Reform has since been separated into an additional distinct sub-program).

4. *The Urban Management Capacity Building Program (UMCBP)* enhances the capacity of municipalities by making them financially self-supporting and able to provide efficient and effective services.

5. *The Tax Systems Reform* encourages capital investment and development; increased tax revenues (through improved compliance and efficiency of collection); and ensures equity and fairness in the tax system through a comprehensive overhaul of the current legislation and tax administration system.

6. *The Information Communication Technology Program (ICT)* harnesses ICT for the development of human resources, democratization, service delivery, and good governance.

The additional financing will allow for the completion of on-going activities and strengthening of key areas. These areas include:

- Strengthening the capacity of public sector training institutions to ensure sustainability;
- Strengthening service delivery monitoring system including citizen attitudes (and also supporting monitoring of major projects e.g. PBS);
- Strengthening ongoing improvements in the accountability of the public sector to citizens including the sustainable embedding of service delivery monitoring and evaluation systems;
- Strengthening ongoing developments in the democratic involvement of citizens in their own governance and in the responsiveness of Government of Ethiopia (GoE) to citizens and investors;
greater attention to meeting the particular needs of less developed regions whose relative lack of capacity has inhibited progress in PSCAP at the same or greater rate than other regions;

implementation of delayed civil service, decentralization and justice reforms and further improvement of communication and knowledge sharing systems to spread the outcomes of PSCAP.

4. Project Financing

The additional financing will allow for the completion of project activities originally envisaged in the Project Appraisal Document (PAD). GoE estimate that a period of three years will be needed to fully complete the activities necessary to achieve full project impact and development effectiveness. This will require the remainder of the financial resources initially envisaged for PSCAP. GoE estimate that around an additional $125 mill IDA and donor funds will be necessary to complement the estimated $60 mill additional financing that will be made available for PSCAP by GoE.

5. Project Implementation

The project will continue to be implemented by the Ministry of Capacity Building (MCB) coordinating the work of the regions and chartered cities and existing 6 federal sub-programs.

6. Project Benefits and Sustainability

PSCAP is an on-going program of GoE and the multi-donor PSCAP project supports the GoE program. The additional financing is intended to complete the project activities initially planned as part of PSCAP but not yet undertaken and through doing so ensure the sustainability of the gains already made.

The PSCAP project is GoE’s major means of supporting capacity improvements in service delivery including enhancing the efficiency and effectiveness of service delivery to the citizens of Ethiopia and the economic sector. The additional financing is therefore intended to complete the gains already made in PSCAP in improving the cost effectiveness of government and enhancing services to citizens and the economic sector which are at the heart of continuing economic development in Ethiopia.

The effectiveness of a number of IDA and multi-donor projects is dependent on the continuation of PSCAP. The PBS PAD relates to the importance of a sustained program of capacity building through PSCAP; encouraging citizen participation will be complemented by PSCAP; and PSCAP will continue to be a mitigation measure of the risk of systemic corruption. The Urban Local Government Development Project (ULGDP) PAD relates to continuing support for training in urban management and procurement continuing to be accessed from PSCAP; as a mitigation measure related to the risk of inadequate urban local government capacity and providing additional support to urban financial management reform. Most other IDA projects and many other bi-lateral donor projects (including those of the UK Department for International Development (DFID), the Canadian International Development Administration (CIDA) and European Community (EC)) are dependent on PSCAP for their capacity building elements and to implement developments initiated and/or piloted in bi-lateral projects.

A further phase of PSCAP is envisaged as part of the current Country Assistance Strategy (CAS) as PSCAP contributes to all the strategic objectives of the CAS and is consistent with GoE’s Plan for Accelerated and Sustained Development to End Poverty (PASDEP) objectives - economic growth; improving basic service delivery; reducing Ethiopia’s vulnerability; and improving governance. PSCAP also encourages greater decentralization and through it improved service delivery and governance.
The additional financing to PSCAP will secure the main project outcomes which are to improve the scale, efficiency and responsiveness of service delivery at federal, regional and local levels and empower citizens to participate more effectively in shaping their own development and promote good governance and accountability.

7. Lessons Learned from Past Operations

The design of the Government’s program, and therefore by the Bank’s initial Support Project, was built directly upon lessons learned from Ethiopia’s recent experience with public sector capacity building as well as the international experience in discrete areas of public sector reform including civil service and expenditure management reforms, decentralization, legal and judicial reform, tax administration, and ICT. The design also sought to build on examples of successful program design in countries undergoing rapid institutional transformation.

Further lessons have been learned, especially in project management, from operation of the existing project as well as through regular joint supervision missions and independent appraisals of the Project’s progress. These lessons which have been incorporated in the Project design on a progressive basis include: the raising of procurement thresholds and delegation of its operation to regions and sub-programs; limiting prior review of terms of reference to those above threshold limits; ceasing in-year reallocation of funds; establishing direct contact between World Bank and all executing agencies and not through MCB; and adding new implementing agencies, as needed.

8. Environmental Aspects

The existing PSCAP is a Category C project. There are no environmental issues.

9. Project Risks

The major risks to the PSCAP (Additional Financing) Support Project are as follow:

Potential Program Disruption due to the 2010 Election

Although disruption caused by the upcoming 2010 election can neither be predicted or discounted, there is a risk of some disruption to project activity due to many political decision makers being engaged on political activity. A change in the political complexion of government could also potentially change aspects of the PSCAP program of GoE. Risk Mitigation Measures: Project annual planning and procurement planning will be undertaken in sufficient time to avoid decision making during the run up to the election. Given the objectives of PSCAP, these are unlikely to be significantly changed by a new incoming government.

Change Fatigue among civil servants

The past five years have been hectic in bringing about change and capacity development in the public sector in Ethiopia. Continued pressure has been exerted on civil servants to implement the changes required, as part of the business process reengineering. This could bring about change fatigue, limiting the efficiency and effectiveness of PSCAP inputs. Risk Mitigation Measures: PSCAP is undertaken by a well functioning system of Capacity Building Bureaus (CBB) at federal and regional levels. Whilst these are small in numbers for the task to be undertaken, they nevertheless provide a separate implementation capacity for PSCAP. Efforts will be made to encourage GoE at the federal and regional levels to supplement the staffing of CBB’s, upgrade their skills and offer further incentives for
performance. In addition, two main change instruments that exerted considerable pressure on civil servants during the current project are now largely introduced and functioning.

Lack of capacity in procurement

PSCAP undertakes a great deal of procurement through many implementing agencies. In the past, a lack of procurement capacity in both GoE and World Bank has inhibited the progress of PSCAP. This has and will continue to be overcome by enhanced procurement capacity at World Bank dedicated to PSCAP and continuing ongoing training and development of GoE procurement staffs.

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   Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.