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PROJECT PERFORMANCE ASSESSMENT REPORT

ETHIOPIA

PROTECTION OF BASIC SERVICES PROJECT
(IDA H2240-ET, IDA H3470-ET)

December 30, 2013

IEG Public Sector Evaluation
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Ethiopian Birr

2004	US$1.00	$8.64
2005	US$1.00	$8.67
2006	US$1.00	$8.70
2007	US$1.00	$8.67
2008	US$1.00	$9.60
2009	US$1.00	$11.78
2010	US$1.00	$14.41
2011	US$1.00	$16.90

Abbreviations and Acronyms

ADB African Development Bank
BOFED Bureau of Finance and Economic Development (regional)
CSC Community Score Cards
CSOs Civil Society Organizations
CIDA Canadian International Development Agency
COPCU Coordination Program for Channel One
DFID Department of International Developments
DHS Demographic and Health Surveys
DPL Development Policy Loans
DPO Development Policy Operations
DSA Decentralization Support Activity
ERSC Economic Rehabilitation Structural Adjustment
ESAC Economic Structural Adjustment Credit
FTA Financial Transparency and Accountability
FTAPS Financial Transparency and Accountability Perception Survey
GOE Government of Ethiopia
HD Human Development
IBEX Integrated Budget and Expenditure
ICR Implementation Completion and Results report
IEG Independent Evaluation Group
IEGPS IEG Public Sector Evaluation
IDA International Development Association
IGR Institutional Governance Review
ISR Implementation Status and Results Report
JBAR Joint Budget and Aid review
KfW Kreditanstalt für Wiederaufbau Bankengruppe
LIG Local Investment Grant
MDGs Millenium Development Goals
MOH Ministry of Health
MOFED Ministry of Finance and Economic Development
NGO Non-Government Organization
ODA Official Development Assistance
PBS Protection of Basic Services
PEFA Public Expenditure and Financial Accountability
PID Project Information Document
PREM Poverty Reduction and Economic Management
PPAR Project Performance Assessment Report
PSCAP Public Sector Capacity Building Program
PRSC Property Reduction Support Credit
USAID U.S. Agency for International Development
WUT Water Users' Committee

Fiscal Year

Government: 8 July - 7 July

Director-General, Independent Evaluation	:	Ms. Caroline Heider
Director, IEG Public Sector Evaluation	:	Mr. Emmanuel Jimenez
Manager, IEG Public Sector Evaluation	:	Mr. Mark Sundberg
Task Manager	:	Mr. Basil Kavalsky

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This report was prepared by Basil Kavalsky and Buli Edjeta, who assessed the project in May 2013. The report was peer reviewed by Alan Harold Gelb and panel reviewed by Robert Mark Lacey. Viktoriya Yevsyeyeva provided administrative support.

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Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Unsatisfactory	Moderately Satisfactory
Risk to Development Outcome	Significant	Significant	Significant
Bank Performance	Satisfactory	Moderately Unsatisfactory	Moderately Satisfactory
Borrower Performance	Satisfactory	Moderately Unsatisfactory	Moderately Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	Task Manager/Leader	Division Chief/ Sector Director	Country Director
Appraisal	Trina S. Haque	Laura Frigenti	Ishac Diwan
Completion	Andrew Sunil Rajkumar	Lynne D. Sherburne-Benz	Kenichi Ohashi

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About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This is a performance assessment of the Ethiopia Protection of Basic Services project, approved in May 2006. At the time of Board approval a $215 million IDA grant, leveraged a total of $532 million with the balance coming mainly from DfID (with larger financing than IDA). In December 2007, IDA provided a second grant of $215 million under the Additional Financing agreement. By completion, the program had channeled $1622 million for support for basic services.

The assessment was based on a review of the relevant documents as well as substantial additional information provided by the PBS secretariat, based in Addis Ababa. A two week mission was undertaken including discussions with the relevant Government agencies, donors and NGOs, as well as the PBS secretariat and the relevant members of the Bank country team. The mission visited two Regional offices and three woredas (Districts, the third level administrative divisions of Ethiopia). Subsequent to the main mission, one of the consultants carried out visits to a further two woredas that had participated in the social accountability pilot program.

This evaluation takes place well after the completion of PBS in 2009 and the preparation of the ICR in 2010. IEG did not review the ICR until 2013 when the recommendation was made to undertake a PPAR given the importance and interest in the project and the divergence in views between the ICR and the ICR review. In the interim, a follow up project (PBS2) was undertaken and has now closed, and a further follow up (PBS3) was approved in September 2012. Although the PPAR is limited to PBS, for learning purposes the evaluation has looked at and discusses the links between the PBS model and the subsequent evolution of the program. In addition there is an attempt to draw some lessons from the overall experience that can be useful in planning the future course of the program. However the assessment and ratings of PBS are based on the evaluation of the PBS and do not constitute a judgment on the later phases of the program.

The Government of Ethiopia has reviewed the PPAR and the comments received are included in Annex E.

Summary

This PPAR reviews the experience of the Bank in supporting Basic Service Provision in Ethiopia through the Protection of Basic Services (PBS) project, approved in May 2006 and completed in December 2009. The project objectives were 1) to "protect the delivery of basic services by Sub-national Governments" and 2) "promoting and deepening transparency and accountability in service delivery." These were to be achieved initially through four instruments : a) providing funding for block grants that transfer resources from the federal government to the regional and district (woreda) governments; b) supporting health service provision through funding the supply of vaccines, treated bed nets, condoms and pharmaceuticals to local medical services; c) promoting the achievement of greater financial transparency and accountability of the federal, regional and district governments through the production of timely budgets that are made publicly available and through increased citizen participation in, and understanding of, the budget process; and d) supporting social accountability directly through engaging civil society organizations to work with citizen groups in monitoring the activities of local government. When additional financing was approved in December 2007, a fifth instrument, the Local Investment Grant (LIG) was introduced to pilot the provision of grant funding for investment in the sectors supported by PBS to selected woredas, with the delegation of decision-making and project management to the woreda council and government.

In the early 2000s Ethiopia made effective progress towards reducing poverty and achieving the MDGs. This was supported by substantial donor funding with the centerpiece being a series of World Bank Development Policy Operations, providing large amounts of budget support, associated with a dialogue on key issues of macro-economic management. In 2005, however, new parliamentary elections showed strong opposition support, and the Government took pre-emptive action which led to demonstrations that were put down with considerable bloodshed, followed by the imprisonment of opposition leaders and members. In this environment, donors were unwilling to continue budget support programs that provided fungible resources to the Government. At the same time, there was concern that the basic services programs at the local level, that had shown promise in expanding coverage of basic service delivery, should not be defunded and put at risk. The PBS was introduced as a mechanism for continuing support for these services.

The PBS was, and remains in some circles, a highly controversial operation. It was intended as a supplement to the expected resumption of Development Policy Operations, but in fact has evolved as a substitute. This affected the content of the policy dialogue between the Bank and Ethiopia's other development partners, and the Government. The dialogue shifted from broader macro-policy, financial sector and private-sector-development related issues, to the decentralization agenda, and issues of basic service provision and management. While the former set of issues were controversial and the dialogue often difficult, there is a broad consensus on issues relating to decentralization among the Government and donors built around a shared commitment to the decentralization process and basic service provision. This has left a gap in the dialogue on some of the core issues in the growth agenda and the Government has little incentive

to put these issues back on the table as long as the PBS is providing the same levels of budget support as would have been provided through a continuation of DPLs.

The evaluation rates the relevance of the PBS project objectives as *substantial.* PBS was a creative response to a difficult situation. A continuation of general budget support through macro-policy based operations would not have been supported by donors. Had the Bank chosen to go it alone, any new operation would have needed to feature significant progress on key policies, which were not likely to have been agreed to by Government. The argument that the need for resources would eventually have forced the Government back to the table was seen by most interlocutors as highly questionable. In their view the Government would simply have cut back on its programs in this event.

The theory of change that underlay the approach adopted was extremely plausible. Decentralization was a vitally important program which affected the life and livelihoods of most of the population. An operation which enhanced its efficiency and fairness had the potential to make a major contribution. It allowed the Bank and other donors increased access to and dialogue with regional and local governments. In addition, it allowed donors to target their support to the poor, since any curtailment of services would have disproportionately impacted the lowest quintiles of the income distribution.

However, the design of the PBS fell short of what was needed for the achievement of the objectives it supported over time. First, some of the longer-term issues of how to best use the PBS to promote a dialogue on key issues of fiscal management and governance were not thought through. Second, a more holistic view of the issues relating to decentralized fiscal management in Ethiopia should have been taken and more done to pilot instruments that could promote more efficient and accountable local governments. Third, the results framework for the program was rather thin and put little emphasis on the quality of or impact of basic service delivery.

The outcomes for the indicators included in the results framework suggest that while on balance there have been significant achievements, some gaps remain. As far as the individual objectives of PBS are concerned, the evaluation assessed the achievements under the first objective (protecting basic service provision) as *high*. Basic service delivery was protected and the Local Investment Grant program, which was introduced midway through the project to provide support for capital investment on a pilot basis, created the potential for improved planning and implementation management at the local level. The projected indicators for the Health Facility, in terms of increasing access to vaccination, ITNs, contraceptives and other pharmaceuticals and medical equipment, were met. The evaluation rated the outcomes of the second objective of increasing financial transparency and enhancing social accountability as modest, however, given the lengthy delays that were encountered and some foot-dragging on the part of the Government.

Overall the risks to the development outcome are rated as *significant.* The key risk facing the project is that it may prove not to be *fiscally sustainable*. There are a range of critical issues such as; the impact of the expansion of administration of services to the kebele (village) level on fiscal sustainability, the implications of increased employment and salary costs for the longer term availability of funds for maintenance and non-salary

recurrent expenditures, the role of generation of resources at the local level in this area, etc. These issues could and should have provided the Bank with an important entry point into the dialogue on overall fiscal management, yet this opportunity has not been taken. The risks associated with *institutional sustainability* seem more moderate. There is certainly a long way to go to build institutional capacity, but this is a major feature of Bank and donor programs. Finally the evaluation noted the significant *political risk* given the brittle political structures in Ethiopia and the continuing ethnic and regional tensions.

The overall outcome of the project is rated *moderately satisfactory* reflecting the substantial relevance and efficacy of the program, discussed above.

Bank performance is rated *moderately satisfactory.* As far as quality at entry is concerned, the program represented a significant effort by the Bank to put together a coherent and useful operation in a very short time-frame. The key concern is that the Bank did not do enough to build into the program a comprehensive, well informed and monitored approach to fiscal policy issues at the local level. The PBS and its sustainability are fundamentally linked to important questions of revenue mobilization and expenditure allocations. There was thus the potential for focused engagement and well-selected analytic studies. One other design issue was the decision to include the Health Services component which was a questionable fit with the rest of the operation, focused as it was on services provided by the line ministry rather than building promoting the capacity and accountability of the regional and woreda officials. As far as the quality of implementation support is concerned, the Bank deserves credit for retro-fitting the LIG to the project design at the stage of additional financing, and for effective monitoring of the additionality and fairness tests. However, the Bank did not put in the up-front investment needed to get the Social Accountability component off the ground in a timely manner, and was slow in moving to resolve some of the procurement issues which arose under the Health Component. Finally the Bank ICR lacks the incisiveness needed to contribute effectively to improvements in project implementation for the successor operations and deriving useful broader lessons.

Borrower and implementing agency performance is rated *moderately satisfactory.* The Borrower had mixed feelings about the PBS at entry. Over time however, the instrument has earned the appreciation and support of senior government officials, and the level of commitment, even to the components on Financial Transparency and Social Accountability which initially had been very difficult to accept, has increased. For much of PBS, implementation quality left a great deal to be desired, but it is apparent that in the course of 2008 the Government got the message and by putting in place more effective management and by, moving with some urgency on health procurement, was able to meet some of the key objectives of the program.

The evaluation draws a number of lessons from the PBS experience:

- There is no good way to end budget support in problematic contexts. The cessation of budget support creates problems for the sustainability of social programs and the likelihood is that the axe will fall disproportionately on the poor

and vulnerable who have limited voice and influence. This creates enormous pressure on the donor community to sustain support.

- This makes it all the more important to think through and discuss the endgame at the outset of budget support, and maintain a strong dialogue with government on economic management. In this case the question of where are we headed with this program was one that should have figured strongly from the outset, including on measures to keep the policy dialogue robust and central. The continuation of the PBS needs to be associated with a long-term program of enhanced capacity building and management of decentralization, local government empowerment and citizen participation. It also needs to be built on a strong policy dialogue with both central and local governments.

- Decentralization is a complex inter-action of programs and processes and successful approaches need to take a holistic view that clearly defines the objectives in terms of the accountabilities of the decentralized units and builds their capacity to meet those accountabilities. While it is not necessary for a single operation to encompass all aspects of decentralization it is important that the Bank's analytic work underpins a holistic view of the process and that the Bank identifies gaps and supports programs to address them.

- The decision to embed a health component channeled through the line ministry, within a program of support for enhancing the management and accountability of local governments is questionable. It succeeded in supplying inputs but did not provide the follow up to ensure that those inputs were effectively used. And it diverted some of the focus that might otherwise have been put on how well the decentralized service provision was functioning.

- Where a project involves key issues of fiscal management at various levels of government there needs to be a steady long-term involvement in the project of a Public Sector Management specialist from the Bank's PREM network in addition to sector specialists (in this case from the Human Development network). Consideration ought to be given to having joint management by Poverty Reduction and Economic Management and Human Development, with PREM leadership of the fiscal dialogue. The fiscal policy issues seem to have been consistently under-represented in the program and this may well reflect the limited involvement of PREM alongside the limited appetite of the Government for dialogue.

- The PBS presents an unusual case in which the Bank provides large scale financial support for expanded service delivery executed by subnational governments. Unlike budget support through a conventional Development Policy Operation, this support is multi-year, does not rely on annual programs built around 'prior actions' and 'triggers', and is in keeping with Paris Declaration principles placing program ownership firmly in the hands of Government. This could be an effective and efficient alternative or supplement to DPOs provided there is strong government ownership in principle and practice, adequate attention

to building subnational capacity where needed, and a strong M&E system to monitor development results. Such a program effectively takes on key features of the Bank's new Program for Results that links disbursements to defined results.

Caroline Heider
Director-General
Evaluation

1. Background and Context

1.1 In May 2005, the Meles Government in Ethiopia held elections that received mixed reviews for fairness from international observers.[1] The early results indicated substantial support for the opposition, but the Government in a pre-emptive move announced before counting had ended, that it had won the election. This led to demonstrations that were put down by the Government with considerable bloodshed. The full election count was only completed in November when a formal announcement of the results was made giving the Government a majority of seats in parliament. Large demonstrations were again mounted by the opposition, which turned violent and were met with force by the police, again with demonstrators killed.[2] The Government then detained a large number of opposition leaders and members.[3]

1.2 Until the 2005 elections Ethiopia had seemed to be headed in a positive direction. (See Box 1 below). The Government had shown a genuine commitment to growth, poverty reduction and meeting the MDGs, and corruption had been, by and large, kept at bay.

Box 1. Economic and Social Progress between 2000 and 2005

The war with Eritrea ended in 2000. "Since then Ethiopia has undertaken reconstruction, stabilized the economy and restarted structural reforms begun in the 1990s. Despite a severe drought in 2002/3, economic growth averaged 6 percent per annum from 2000/01 through 2005/06 according to official statistics. Macroeconomic management has been prudent during most of this period, and pro-poor budget spending rose from 11.7 percent of GDP in 2001/02 to about 16 percent in 2005/06. The official poverty headcount estimates also shows a decline from 44.2 percent in 2000 to 40 percent in 2005. Social indicators have mostly, but not uniformly, improved. Access to education expanded dramatically, but at some cost to quality. Infant mortality declined, but average life expectancy has declined in recent years because of HIV/AIDS."

Source: Report no. 43336: PPAR on four budget support operations in Ethiopia issued by IEG in April, 2008.

1.3 The main institutional driver for improved development management in Ethiopia was a far reaching decentralization program which had been initiated in the early 1990s with a first step of shifting a significant share of financial and human resources to the regional level.[4] In 2001 the Government introduced a second phase of decentralization "designed to

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[1] On May 19th, 2005 former US President Jimmy Carter, reflecting the views of monitors from the Carter Center, stated that "While there were serious problems in the run-up to the elections, many positive strides were made. Depending on the transparency and fairness of the tabulation and publication of results, the election could represent a quantum move forward in democratization for Ethiopia."

[2] Estimates vary from 40 to 200 depending on the source.

[3] In the view of one observer "The Government seems to have regarded the election as a general plebiscite on whether it was supported, but not as putting in play competing views on how the community should be developed, and under no circumstances as an occasion for a transfer of power".

[4] "The first phase of this strategy involved the creation of a federal state structure based on ethnic regional states responsible for a broad range of the country's political, economic and social objectives. Through the use of formula-driven block transfers and the redeployment of the majority of civil service staff, the Government

shift decision-making closer to the people at the 'grass-roots level' and to improve the responsiveness of service delivery. A series of far-reaching legal, fiscal and administrative measures were rapidly introduced in 2001 . . . to empower the local government sphere – comprising woredas and municipalities - to deliver the bulk of basic services in a responsive manner. The primary fiscal instrument that regions used to ensure rapid decentralization of delivery responsibilities to woredas was a formula-driven, equity-oriented 'block' grant. Implemented for the first time in the 2001-2002 fiscal year, this 'unearmarked' transfer was expected to empower local authorities to make critical allocative decisions and in the process, enhance the responsiveness of service delivery as well as downward accountability."[5]

1.4 The donor community responded to these positive economic and social policies and outcomes with a substantial program of development assistance, of which the core was a budget support program, spearheaded by a series of four World Bank policy-based credits.[6] "A number of reform objectives were common to all four operations: public expenditure policy and management; private sector development; and human development through increased pro-poor spending and better service delivery."[7] The IEG project performance assessment report (PPAR) of these operations found that while there was "progress in improving institutional performance and also in expanding budget support and improving governance for service delivery for human development, outcomes were unsatisfactory for promoting private and financial sector development and there was negligible progress in improving the investment climate. The series of credits was rated *moderately unsatisfactory* by IEG, which found that the Bank had moved too quickly into direct budget support and that direct budget support for human development was premature. It argued that the Bank had relied too heavily on direct budget support, which had led to programs that were "too broad and ill-focused to be effective". It noted the positive impact of the complementary PSCAP program on capacity development and pointed out that effectiveness in rural development and education had suffered because of the lack of complementary projects and programs.

1.5 With hindsight there is some consensus among those involved at the time that the Bank and donor partners misjudged the openness of the authorities to consider a broad agenda of development reforms. See Box 2 below.

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sought to ensure the viability of regional states. Notwithstanding the success of regionalization public sector governance within Ethiopia's regions continued to rely on systems that afforded local communities little by way of decision-making accountability. Enduring challenges of improving frontline service delivery in priority sectors loomed large." Source: Report no. 40306: Ethiopia: Issues in State Transformation: Decentralization, Delivery and Democracy. An Institutional Governance Review (IGR) Concept Note. World Bank: p.1.

[5] Ibid: p. 1.

[6] The Economic Rehabilitation Support Credit (ERSC) of $150 million was approved by the Bank's Board on June 5, 2001. The Economic Structural Adjustment Credit (ESAC) of $120 million was approved on June 18, 2002. The First Poverty Reduction Support Credit (PRSCI) of $120 million was approved on February 17, 2004 to support the 2003/04 budget. The Second PRSC of $130 million was approved on November 30, 2004 to support the 2004/05 budget.

[7] Source: Report no. 43336: PPAR on four budget support operations in Ethiopia issued by IEG in April, 2008.

Box 2. The Ethiopian Regime and Development Partners: A different philosophy

In the view of a political economist who lived through and has studied the recent past in Ethiopia, during the 2003-mid-2005 period, "the DPs [Development Partners] mistakenly thought that the Government was on the same wavelength as them in pursuing a vision which involved a linear progression to Western liberalism. With hindsight the agreement was semantic rather than philosophical. It is now clear that the Ethiopian Government has been and is pursuing a vision of political and social development drawn from models such as China. The Government's vision was one of collective rights rather than individual rights; of grass roots democracy leading to mass mobilization of the people through highly organized structures." He saw this as accounting for the limited achievements of the earlier Policy-Based Loans which ran into major obstacles on fairly modest steps in the direction of promoting private sector development. A more cynical view comes from a former Bank manager who felt that the Government feared the development of a powerful private sector and favored those business groups that were aligned with the party, and that invoking ideology was a convenient way to avoid discussion. In his words: "This was a Government that was willing to sacrifice economic efficiency for political control."

Source: Interviews conducted by the Evaluation team.

1.6 The dynamic of the Ethiopia/donor partnership underwent a radical transformation with the post-election violence. The events surrounding the elections made the continuation of budget support difficult for both the Bank and donor community. There was strong political concern in most donor countries that general budget support could enable resources to be transferred to military and police activities. In early 2006, a Bank document described the situation as follows: "Political tensions within the country have become stronger and more open in the months following the May 2005 elections. Heightened risks on the governance front have become apparent, with concerns that the political tensions have the potential to adversely impact economic governance and the larger development agenda. Ethiopia's development partners have suspended direct budget support which had been providing significant levels of support for increasing pro-poor spending at local levels, and also served as a platform for broad-reaching dialogue around the key issues of growth, governance, vulnerability, service delivery, and the macroeconomic picture. Partners based this decision on their perception of increased risks relating to governance, particularly the risk that unconstrained budget support could be vulnerable to political capture or diversion from the core priority of basic service delivery."[8]

1.7 However, there was also concern on the part of the donor community, that the progress that had been made towards poverty reduction in general and achievement of the MDGs in particular, should not be reversed as a consequence of reduced donor budget support.[9] As discussed above, the core of Ethiopia's support for basic services was the provision of block grants to Ethiopia's regions and (at that time) 700 districts (woredas) with authority over allocation in principle transferred to these levels (i.e. federal to region and then region to woredas). Prior to the election, the Bank had already provided substantial support for capacity building at the regional and local levels as well as providing resources to the line

[8] See Report no. 36212: Project Information Document (PID) Appraisal Stage: page 1.

[9] Ibid: "Given the extent to which Government expenditures are devoted to pro-poor sectors, and in view of the financing pressures the likely adverse consequences for the poor of Ethiopia if Government expenditures are cut below budgeted levels are clear."

ministries in Addis Ababa for their use in the regions. While it had also funded capital investment at the local level, this funding was simply the regional or local component of the national investment program and was neither additional nor subject to decision-making at the local level. The Bank had not provided direct support for recurrent expenditure at the local level. There had been discussion among donors of the possibility of doing this through supporting the block grant system. With the new post-election situation and the unlikelihood that the suspended PRSC series could be resuscitated in the near term, the idea was revived. While the Government initially insisted that the regular budget support operations should be resumed, it was willing to accept support for block grants as a temporary expedient.

1.8 From the Bank and donor perspective, the idea of direct funding of Regions and woredas had a great deal to recommend it. It was a natural fit with much of what the Bank was already doing. The Public Sector Capacity-building Program (PSCAP) provided strong support for capacity building at the sub-national level, and a parallel program had addressed the capacity needs of municipalities. The Bank was also exploring the potential of investment grants at the local level. Many donors already had functioning programs in individual regions, but had run into the problem that, in order to maintain inter-regional balance, the Government was offsetting aid to a particular region with budget reductions.

1.9 There were however two major concerns with supporting block grants to regional budgets. First, there was a need to demonstrate that the resources provided were genuinely additional to the Government's own funding of block grants, and did not simply release funds for the Government to use to exercise control over the population. Second, there was concern that the Government might use the regional allocation process to steer funding towards 'loyal' regions and districts, and away from opposition strongholds. The Bank needed therefore to build into the operation tests of additionality, and transparent and fair allocation. In addition there was a strong sentiment based on the findings of a high-level Bank mission[10] that all Bank operations should move the good governance agenda forward by putting in place enhanced transparency and social accountability mechanisms at the local level through partnerships with Civil Society Organizations (CSOs). There was resistance from the Government to this and it was only when the Africa Region Vice President came to Addis Ababa and made it quite clear that, without this, the operation would not go forward, that the Government finally acquiesced. With the basic design in place, there was substantial donor co-financing forthcoming for the Bank operation.

1.10 The decision to proceed with the PBS was extremely controversial within the Bank. Many Country Team members were horrified and disillusioned by the Government's actions and some shared the initial reaction of the then President of the Bank, that no further support should be provided to Ethiopia. The argument won the day that the Bank could not simply turn its back on the second largest, and one of the poorest, countries in Africa. This position was also consistent with the Bank's lending objectives and fitted well with the prevailing international context for Official Development Assistance (ODA). In the context of the Gleneagles Agreement and Paris Declarations of 2005 to, inter alia, increase aid to Africa,

[10] The mission was led by Sanjay Pradhan, then Director of Public Sector Management in PREM, and Mark Baird who had just completed an assignment as Country Director for Indonesia in the immediate post-Suharto phase.

cutting a large aid program in the region became more difficult politically.[11] Once the decision was taken to remain engaged, the question became how to do so. There were arguments for the continuation of the series of policy-based loans with stiffened macro-conditionality and stronger emphasis on governance. The donor community made it very clear however, that fungible budget support at the federal level was not on the table. Expanded sector budget financing was considered, but still raised some issues of fungibility, would have been more difficult to administer and, given the sectoral focus, did not provide an entry point into systemic issues of basic service provision at the local level. A program of traditional investment projects was a realistic option but it risked sacrificing the momentum which had been achieved in poverty reduction and promoting the achievement of the MDGs.[12] This is the context in which the PBS was launched.

2. Objectives, Design, and their Relevance

2.1 The issue of the counter-factual is a particularly interesting and important one for the Ethiopia PBS. For most Bank operations the counter-factual is simply a trade-off between one activity or another within a given strategy. Some would argue, however, that the PBS represented a strategic shift – a deliberate choice by the Bank and Development Partners (DPs) to move away from the macro-dialogue (at least temporarily) and focus its attention on a set of issues that was less controversial and less central to growth over the medium to long term. The argument has also been made that the pressure on resources would have led to more tractability on the part of the Government on some of the issues relating to private sector and financial reforms where the donor community had not achieved much progress in the PRSC dialogue.

2.2 The theory of change that underlay the approach adopted was very plausible. Decentralization was a vitally important program which affected the life and livelihoods of most of the population and an operation which enhanced its efficiency and fairness had the potential to make a major contribution. The PBS approach accepted the Government's word that it wanted to move away from an extremely centralized governance structure and allow increasing autonomy to regional and district governments in allocating resources and implementing programs.[13] It was designed to use and strengthen the government's own systems for management of the decentralization process and not substitute an alternative DP-designed approach. It also created the potential for the DPs to reduce fragmentation and move away from providing all their support in the social sectors, agriculture, water and rural

[11] The international atmosphere in which debate over aid to Ethiopia took place favored expanding aid to Africa: in July 2005, the G8 summit at Gleneagles had called for cancellation of debt for 18 African countries including Ethiopia, and a doubling of new aid to Africa, making cuts to a large program more politically difficult. The 2005 Paris Declaration further set out commitments to greater developing country ownership of aid programs and for aligning ODA with their country systems. Several donor partner informants indicated these were significant factors driving the agreement to support the PBS approach in 2006.

[12] Another possible option was direct donor support to specific regions. The Government policy however, did not allow any additionality of such resources and donor funding of a region was offset by an identical reduction in budgetary transfers.

[13] "Ethiopia is so top down. The Federal Government micro-manages everything. The PBS has helped to foster a more collaborative dialogue between the Federal Government and the Regions." (A Bank staff member)

roads, through the central line ministries.[14] It allowed the Bank and other donors increased access to and dialogue with regional and local governments. Another substantial benefit was that a curtailment of basic services would likely have had a disproportionate impact on the lower quintiles of the income distribution. While there were obviously other approaches that might have yielded similar benefits, from a political economy standpoint no other approach had the same level of feasibility and prospect for generating positive outcomes.

2.3 While the Bank and the donors saw the PBS as a viable instrument for supporting basic service delivery at least through the period of the Millenium Development Goals (MDGs), they viewed it as a temporary vehicle for supporting a continuing policy dialogue with the authorities. Both the Bank and DfID, the two key actors, saw this as preparing the ground for a resumption of Development Policy lending in Ethiopia. In practice the country strategies of the Bank and the DPs have not evolved in this way. The PBS has become the main mechanism for delivering large scale donor budget support to Ethiopia and conducting the policy dialogue. The Bank and the donor community have painted themselves into a corner where a cessation of this support is likely to put the achievement of the MDGs at serious risk. The Government has been able to in effect select from the policy dialogue those elements which it is most comfortable with and keep out those which run counter to its ideology or what it perceives as its political interests. [15]

2.4 The Financing Agreement states the objectives of the Project as 1) "to protect the delivery of basic services by Sub-national Governments" and 2)"promoting and deepening transparency and accountability in service delivery." The program as designed had four instruments for achieving these objectives, organized under four components. The first, and by far the most important instrument (supported by a component accounting for $190 million out of the original IDA grant of $215 million)[16], was to protect the provision of basic services. For this purpose funding was provided through the block grants. Although set up as a Sector Investment Loan no-one was under any illusion that the first component was anything other than simply an alternative mechanism for continuing to derive the perceived benefits of budget support. The key here was therefore as indicated above, to ensure a) additionality and b) fairness in allocation of the funds, and c) the fiduciary requirement that funds were indeed being used for the purposes for which they were given.[17] The Bank therefore established 'tests' to measure these.

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[14] PBS covered Health, Education, Agriculture, and Water Supply and Sanitation. Rural roads were added in PBS2. These are collectively referred to as the 'protected services' under the program.

[15] The PBS was widely perceived in the donor community as a 'back door' way of providing budget support, since the 'front door' of the PRSCs was effectively closed by donor authorities. In the words of one Bank staff: "As time went on, there was an appreciation of what PBS could do. There was donor support and unlike abstract policy dialogue, the dialogue on PBS was about practical changes needed. It was taken seriously by the Government and donors felt that they were getting more traction. There were no major changes, but given the importance of service delivery, donors felt encouraged. The discussions had an impact. So although the origins of the PBS were still questioned, donors increasingly saw it as a very useful instrument, although lacking a macro policy dialogue. General budget support remained on the table but was no longer seen as a substitute for PBS."

[16] An additional $165 million was provided for this under the Additional Financing in December 2007.

[17] In the words of one DP, these tests were needed to enable them to 'follow the money.'

- As far as additionality is concerned, "the purpose of PBS financing is to support increases in basic services which would be financed via sustained increases in the Federal block grant. The additionality principle further implies that the Federal Government will maintain the trend growth rate of 10% a year in its own-revenue share of the Federal block grants *as a minimum* starting from the base year. While the Federal Government does not have the mandate to allocate budgets at the sub-national level, sub-national budgets for basic services will nonetheless be monitored to confirm whether increases in the block grant transfers are leading to correspondingly greater spending on basic services."[18]
- The fairness test required that "i) Budget allocations (including supplementary allocations) of block grants from the Federal government to the regions and from the regional governments to woredas should be based on transparent, fair and rules-based formulae. ii) Actual transfers of these grants are expected to be equal or close to their budget allocation; if there are deviations of actual transfer amounts from budget allocations there should be good reasons for this. Moreover the review will be utilized to confirm the absence of any systematic deviations related to political or ethnic factors."[19]
- The fiduciary test was mainly a matter of putting in place a continuous audit mechanism and strengthening the Office of the Federal Auditor General to carry this out. In addition it required support for local government financial and accounting systems, linked to the support for Financial Transparency and Accountability (see below).

2.5 Under the Additional Financing provided by IDA at end 2007, an additional $20 million sub-component was added under this objective to support a pilot program for a Local Investment Grant (LIG). "The ultimate objective of the Government is to introduce LIG as a national, performance-based capital grant. This would represent a new component in the existing intergovernmental fiscal system. The objectives of this new capital grant would be *to increase the quantity of capital investment* by providing additional money specifically earmarked for capital investment and to *improve the quality of that investment* by making access to LIG funds conditional on meeting certain performance criteria".

2.6 A second instrument to support the protection of basic services was for the Health MDGs Performance Facility, (supported by a component consisting of a $20 million IDA grant).[20] This was essentially a health services project which was only related to the other project components in that it also supported basic service provision. The Facility had its own separate group of co-financiers whose funds were tied specifically to this component. The health services component was channeled through the line ministry and provided support that had been handled through free-standing health projects in the past.[21] "The component would

[18] PAD for PBS, May 2006, p.43.

[19] Ibid p.44.

[20] A further $29 million was provided under the Additional Financing.

[21] As indicated, while the block grants are referred to as Channel One in Ethiopia and overseen by a separate coordination unit in MOFED, funds channeled through the line ministries are referred to as Channel Two. The Ministry of Health was the executing agency for Component 2.

support the establishment of a Federal budget line to finance the critical functions of the federal MOH to support basic health services at woreda level. The budget line would finance high impact health commodities (vaccines and vitamin A, bed-nets, contraceptives) as well as capacity building activities, particularly in the area of procurement and logistics." The argument for linking this with the PBS was that "the inclusion of a component in this operation offers an opportunity to start transitioning from the fragmented off-budget approach characterizing donor financing for health inputs, toward building inter-governmental systems for the management of these services and bringing these expenditures on-budget over time. Component 2 will thus be an avenue for promoting donor coordination on the one hand, and for improving public accountability in health service delivery on the other."[22] Perhaps equally important in the views of the staff involved, was the concern of both the Bank and the Government that a free-standing health project would mean additional financial and transaction costs and a preference to avoid having too many different projects in the Bank program.

2.7 The second objective of the project was to strengthen Government systems through promoting Financial Transparency and Accountability (FTA). This objective was addressed by two instruments. The first was focused on financial transparency and accountability of the Federal and sub-national governments, supported by component three of the loan, with $5 million of IDA.[23] At the Federal Government level this component was closely related to the fiduciary requirements of the first objective; it provided "urgent strengthening of the Office of the Federal Auditor General, including capacity building and provision of essential hardware and software necessary to conduct continuous audits of activities undertaken under Component 1"[24], as well as providing equipment and capacity building for MOFED and the Regional BOFEDs. At the Regional and woreda levels, it required that their budgets, which had hitherto been black boxes, be posted at the regional and district headquarters in a publicly accessible place and that council meetings be held to discuss and approve the budgets. This required much better information systems and connectivity between various levels of government and capacity building to enhance the understanding of the budget processes and content of both local officials and elected representatives.

2.8 The second instrument for promoting Financial Transparency and Accountability, dealt with Social Accountability. This was supported through the fourth and final component of the loan. The Bank did not directly fund this activity, under which CSOs were financed through a Multi-Donor Trust Fund administered by the Bank. The Trust Fund would contract CSOs to work with communities in supporting their capacity to understand, assess and influence the content of local programs. The PAD contrasts the "downward accountability" of the first instrument under this objective with the focus of this instrument on the "demand side" of governance, i.e. citizen and civil society organization-led approaches to increase responsiveness. Much of the emphasis here was to provide support for Ethiopia's thinly developed civil society organizations which were looked at with suspicion by the Government. A non-government Management Agency was to be selected for the

[22] Ibid p.44.

[23] A further $1 million was provided under the Additional Financing.

[24] Ibid p.48.

Trust Fund which would 'work with input and endorsement' from a Steering Committee consisting of three Government, three CSO and three donor representatives. Since the funding was provided to CSOs through a Trust Fund that was not directly administered by the Government, there was no IDA financing of this component which was initially funded by Department of International Developments (DfID) and Canadian International Development Agency (CIDA) with $6 million. There was no question however that this was an integral part of the PBS and fully covered by all the reporting and review requirements.

2.9 The PBS also put in place a process which the Bank and donor community hoped would allow for a continuation of the dialogue on macro-policy issues. The mechanism for this was the quarterly Joint Budget and Aid Review (JBAR) covering the macro and fiscal framework, expenditure allocation and aid review. The Public Expenditure and Financial Accountability (PEFA) studies formed a part of this framework.

2.10 As concerns the relevance of the PBS, it was a creative response to a difficult situation. As far as the counterfactual is concerned, the evidence from interviews with Bank staff, government, donors and from the various project-related documents is clear that the main alternative option of a continuation of general budget support through macro-policy based operations would not have been supported by donors and even if the Bank had chosen to go it alone, any new operation would have needed to feature significant progress on key policies, which would likely not have been agreed to by Government. The argument that the need for resources would eventually have forced the Government back to the table was seen by most interlocutors as highly questionable and in their view the Government would simply have cut back on its programs in this event, with the cuts falling most heavily on capital expenditures. In the view of donors rechanneling general budget resources through sector SWAP operations would have raised very difficult fungibility issues and put more influence into the hands of the Federal line ministries. The alternatives of opting for a project-based program or of opting out altogether would have severely limited the funding of the block grants and would have likely impacted basic service delivery and the achievement of the MDGs.

2.11 The PBS should not be seen as just making the best of a bad situation, however. On the contrary, the PBS positioned the Bank very effectively in supporting one of the most important policy initiatives and programs in Ethiopia – one moreover where the value added of the Bank's contribution was likely to be substantial given the need for improved policies, processes and capacity in this area. The decentralization also provided the potential for an expanded dialogue on overall fiscal management. The support for basic service delivery enabled the Bank to increase the overall poverty focus of its lending. As suggested in paragraph 2.2, even in the absence of a crisis this was a program that the Bank should have supported. By and large the PBS design related closely to the objectives defined.

2.12 However, there are issues concerning the relevance of program design. The PBS was intended as a short-term response to a crisis situation and a number of the initial documents and interviews with the participants make it clear that the Bank and DPs saw this initially as a stopgap measure. As a consequence there was little thought given to the end-game and where this was taking the donor dialogue down the road. Until recently, the Bank has taken the view that there needs to be an additional budget support track of a macro-policy based

operation that allows for a broader dialogue along the lines of the former PRSC. The Government quite clearly prefers that budget support be channeled through the PBS which allows it to avoid a confrontation on some of the contentious issues where it is unwilling to give ground (such as on the business environment). At the same time the donors are locked into a continuation of the PBS because of their concern not to rock the boat on the MDG attainment.

2.13 In addition to its longer-term positioning in the Bank strategy context, there is also a question of how to position PBS in the Ethiopian fiscal context, which does not appear to have been thought through. The block grants essentially support government salaries – about 85 percent of the proceeds go for this purpose, with about 10 percent for non-salary recurrent expenditures and 5 percent for capital expenditures. It is widely recognized that the latter two categories are seriously under-financed and this was easily validated by the field observations of the evaluation. It was also apparent at the time PBS was designed. Over time, donor funding needs to move to the non-salary categories which means that the Government needs to initiate civil service reforms while building up its capacity to cover salaries through its own contribution to block grants. There is surprisingly little discussion of what this would require and how it should be done in the PBS documentation. The decision not to proceed with the LIG as part of PBS3 is seen by the evaluation as particularly unfortunate.

2.14 Related to this was the apparent failure to think through not just the first steps along the road to transparency and accountability, but where this was taking communities down the road and what had to be put in place in order to do this. The Bank did not seem to take a holistic view of the local budget process including the generation and retention of own resources at the local level (this is now included in the work program for FY14), the different approaches needed for salary and non-salary budgets, the human resource management issues, etc. Consideration should have been given to piloting a more comprehensive approach in selected districts. This would also have allowed for an understanding of some of the issues that emerged over time, such as the limitations of posting budgets in the regional or woreda local government compounds for example.

2.15 A further concern with the design relates to the inclusion of the MDG health facility component in the project. It brought another set of more traditional investment project issues into the project design (e.g. pharmaceuticals procurement) and created an awkward dynamic in terms of the relative importance of various categories of local expenditures (i.e. why insert a malaria prevention component and leave out other categories – education, agriculture and water supply?). More importantly however, it created an ambiguity about the focus of the operation at the impact level on better governance, resource allocation and program implementation of regions and districts within the framework of decentralization. This may have contributed to the less intensive follow up of the key process issues during the course of program implementation.

3. Implementation

3.1 The PBS project evolved into a major channel for donor funding of Ethiopia's basic service provision. At the time of Board approval a $215 million IDA grant, leveraged a total

of $532 million with the balance of donor support coming mainly from DFID (with larger financing than IDA). The contribution from the Government of Ethiopia was envisaged at $2.03 billion. At end 2007, IDA provided a second IDA grant of $215 million under the Additional Financing agreement. By completion the program had channeled $1622 million with $430 million from IDA including the additional financing.

3.2 To understand the implementation of PBS, it is useful to examine the timeline covering the period from the elections of May 2005 to the closing of PBS2 in January 2013. See Table 1 below.

Table 1. Timeline of Events in Ethiopia and the PBS Program

GOE Elections	May	2005
Protests lead to police shooting of demonstrators and jailing of opposition leaders	November	
PBS Concept Note	December	
PBS Appraisal	February	2006
PBS Board Approval	May	
PBS Effectiveness	June	
PBS Project Launch JRIS	July	
PBS Mid-Term Review	May	2007
PBS Additional Financing approved	December	
PBS Original Closing Date	June	2008
GOE Comfort letter on CSOs sent	February	2009
PBS2 Board Approval	May	
PBS Revised Closing Date	June	
PBS Final Closing Date	December	
PBS ICR	June	2010
AAA Public Finance Review on Decentralization	August	
PBS2 Additional Financing approved	February	2011
PBS2 Original Closing Date	December	
PBS3 Board Approval	September	2012
PBS2 Revised Closing Date	January	2013

Source: Compiled by the Evaluation team from various World Bank sources.

3.3 Within days of Board approval of PBS a project launch mission was mounted with joint participation by donors (DfID, Canadian CIDA, Irish Aid and the Netherlands at that point). The key was to put in place the monitoring systems that would allow the Bank and donors to assess additionality and fairness, and also the institutional structures and processes for the fiduciary requirements of the program and the FTA and Social Accountability

components. [25] Some donors (e.g. Canada) were only willing to support the Health Facility of Component 2, but over time other donors became convinced that the tests and supporting mechanisms that had been put in place, were sufficiently robust as to effectively rule out possible reputational risks through accusations of providing fungible resources that supported the Government crackdown. The European Community and Spain joined the Multi-Donor Trust Fund and the African Development Bank, Austria and KFW provided parallel financing.

3.4 The executing agency for components 1 and 3 was the Ministry of Finance. As explained, the block grants and capacity building supported by components 1 and 3, were referred to as 'Channel One' programs, to differentiate them from 'Channel Two' in which funds were provided through the line ministries to local government for specific defined programs. It took some time for the management structure and capacity for the Channel One programs to get off the ground. Initially the responsibility was given to the macro department of MOFED. This did not work because of competing demands on the staff assigned to manage the program - numerous positions, were unfilled and financial reporting procedures were not put in place during the early phase. At the time of the additional financing, the Bank insisted that a separate structure was required and COPCU (the Channel One Program Coordination Unit) was put in place which has contributed to much more effective implementation. COPCU has organized a set of working groups which according to subsequent ISRs on the project and follow up projects, has provided effective coordination and reporting of progress on the program. In addition there is a COPCU office in the Bureau of Finance and Economic Development (BOFED) of each region to manage the Channel One program.

3.5 An important element of the program was the use of national systems for most of the activities. The project was highly appreciated by the Government for the fact that the capacity building which was supported generally went to strengthen the use of national systems in activities such as financial management. The fact that this was set up by the Bank as an Investment Loan in order to ensure that the funds were not fungible did mean that audit requirements were somewhat tighter than the country's system normally required. The Bank did however, agree that procurement under component 1 by the Regions and woredas could be handled using Ethiopia's local government procurement procedures and rules. [26] The approach to component 2 was more complex with mainly Bank procedures being applied, but with some exceptions for local procurement in response to specific requests from the Government.

3.6 With the progress of the operation and growing donor support, it was decided to provide additional financing for a second phase of the PBS, rather than financing a new project which would have been more costly and time-consuming. The Bank decided to support a new instrument, the Local Investment Grant (LIG), which provided funding that

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[25] In PBS2 this was modified to the 'SAFE' framework: Sustainability in additionality; Accountability including fairness; Fiduciary standards, and Effectiveness.

[26] Obviously building audit capacity in 800 woredas remains a huge challenge. The Auditor General cites problems such as high turnover, low competence and generally weak quality of audit work despite excellent laws, manuals and growing coverage.

could be used for investments, agreed, prepared and implemented, at the woreda level. [27] The Board document for the Additional Financing stated that the objective of supporting the LIG was to 'scale up' the impact of the PBS. This new instrument reflected a sense that by only financing recurrent costs, the project was not providing support for building the planning and implementation management capacity of local governments for the longer-term. The LIG was initially piloted in 51 woredas with funding of $20 million provided entirely by the Bank. Under PBS2 this was expanded to 99 woredas with total funding of $87 million.[28]

3.7 In January 2009, the Ethiopian parliament passed the Charities and Societies Proclamation, which was aimed at international CSOs, such as Human Rights Watch, which were seen as having been significant players in bringing some of the Government's actions in 2005 to international attention. The proclamation prohibited CSOs which received "more than 10% of their funding from foreign sources from engaging in activities in political governance and rights-based advocacy, while allowing their engagement in social and economic development and other charitable purposes".[29] Given the involvement of CSOs in the Social Accountability pilot there was a great deal of concern on the part of the Bank and donors about the impact of this on the component and as a consequence on the entire PBS operation. To address this concern, the Government provided a 'comfort letter' to the Bank indicating that it regarded the Trust Fund that had been set up to fund the pilot as being government funding rather than funding from foreign sources.

4. Achievement of the Objectives

4.1 The PBS defined a clear and limited set of objectives relating to protection of basic services and deepening transparency and accountability in service delivery. In practice however, the project was also intended to support the enhancement of service delivery, promoting expanded access, coverage and quality as well as improved efficiency. In addition, it is clear that support for an effective decentralized system through strengthening decentralized budget and planning capacity and implementation, and citizen participation in this process, was also a key objective for both the Bank and the DPs. With hindsight, a formulation that encompassed these broader objectives might have provided the basis for a more effective dialogue on overall public finance and public expenditure management in Ethiopia. From the perspective of this PPAR, the evaluation is focused on the objectives defined by the project documents.

4.2 As indicated above, the two broad objectives of the project were supported by five separate instruments as shown in Table 2 below. These in turn were organized into four program components. The Local Investment Grant (LIG) instrument which was introduced as part of the Additional Financing, was included as component 1b. The Results Framework of the project is best examined in terms of the individual instruments.

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[27] The LIG was originally conceived as a stand-alone operation, and implementation of a PHRD grant to support its preparation, began in March 2006.

[28] The LIG was discontinued in PBS3 however, for reasons that are discussed in para 4.12.

[29] Quoted in the ICR: para. 138 p. 28.

Table 2. Tracking PBS Objectives, Instruments and Components

Objectives	Instruments	Components
1. Protecting basic service provision	a. Support for block grants	1. Basic Service Protection
	b. Local Investment grants	
	c. Health Facilities support	2. Health Facilities
2. Enhancing transparency and accountability	a. Financial Transparency and Accountability Program	3. FTA
	b. Social Accountability Program	4. Social Accountability

Source: The evaluation team.

Objective 1: Protecting Basic Services

4.3 This objective was supported by three instruments of the project: Support for federal block grants; the Local Investment Grant; and the Health Facility support program.

4.4 **Instrument 1a: Support for federal block grants** to protect basic services at the sub-national level is concerned, the levels of financial support for the five protected service areas were not only maintained, but have been substantially increased. The additionality test was fully met during the life of the project and subsequently with increases in the government's own resources going into federal block grants exceeding 10% in each year.[30] The total federal block grant went from $632 million in 2004/5 to $1,598 million in 2008/9. Table 3 below shows that the growth in budgets at the regional and woreda levels consistently exceeded the increase in general government expenditures. It also suggests however that the focus on additionality at the aggregate level of block grants may have been too crude an instrument. Regional and woreda recurrent expenditures increased at twice the rate of general expenditures. Most of the block grants finance salary expenditures and the real bottlenecks that have emerged at the local level relate to non-salary recurrent expenditures such as simple maintenance activities, supply of fuel and materials, etc., as well as capital expenditures on major renovation or new construction.[31]

[30] Note that this is not the same figure as Table 1 which comprises both donor and government funding and is broader than block grants. The Government argued without success with the donors that their resources for block grants should also be subject to the additionality test.

[31] The additionality test was changed during PBS2 – where there was concern about the fiscal impact of rapidly growing block grants. The question raised was what was the optimal level of federal-regional transfers?

Table 3. General Government and Basic Services expenditure growth

Expenditures	*Average annual growth in 2000 real prices (05/06-09/10) in %*
General government	0.8
General government recurrent	1.6
Consolidated regional	3.2
Consolidated regional recurrent	6.5
General government basic services	1.7
Consolidated regional basic services	5.3

Source: World Bank and MOFED data, quoted in the ICR pages 53 and 54.

4.5 Additional evidence of the shift in the balance of expenditures from the federal level to the Regions can be drawn from the employment data. Taking a somewhat longer period, Federal employment increased by 56 percent over 6 years while Regional and woreda civil service employment increased by 122 percent. (See Table 4 below).

Table 4. Number of Civil Servants (2004/05 2010/11)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Federal Government	46,238	52,833	56,911	57,012	59,281	65,238	72,515
Regional Governments	377,829	437,530	524,918	563,451	724,214	789,078	854,201

Source: Ministry of Civil Service (annual reports), compiled by the PBS Secretariat.

4.6 As far as fairness is concerned, there are three broad issues. First are there some biases built into the design of the formula itself? Box 3 below discusses the formula. [32] For PBS some donors felt that it gave inadequate resources to lagging regions. Although the 'emerging' regions get more on a per capita basis than the more developed regions, there are issues of whether the balance is right.[33] Second, there may be issues of the transparency and stability of the formulas. The evaluation mission found it difficult to obtain the formulas from either the national or regional levels. While the formula at the Federal level is more stable, in some regions the formulas seem to be changed frequently. Donors confirmed the difficulty of getting information on the current formula at any given point in time and in one region the evaluation team was informed that the regional formula had changed every year over the last seven years. It is quite surprising that the dialogue has not encompassed proposals for greater transparency -- for example, that formulas should be included in the budget documents, made public and the regional formulas should be reviewed on a fixed schedule – say, every three years as is the case for the federal formula.[34] Third, there may be

[32] Box 3 describes the 2007 formula which was operational during PBS. The formula was revised in 2012.

[33] Two Professors from Addis Ababa University are currently working to review the formula at the federal level and make proposals.

[34] A two-day Bank organized workshop in 2013 for federal and regional officials discussed the formulas and the evaluation team was able to obtain powerpoint presentations from this workshop which discuss the formulas. It

an issue of micro-level fairness that is difficult to pick up and document. Human Rights Watch has raised the issue of the politicization of benefits within woredas. It argued that there was bias in areas such as teacher hiring for example, and questioned whether families that had supported the opposition were getting equal access to benefits. Obviously these are very difficult matters to control and the project was unable to put in place mechanisms that might substantiate or disprove these accusations.

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is difficult to assess whether the fact that neither of the BOFEDs visited were able to provide the formulas was a matter of chance or reflects a more fundamental issue of lack of transparency.

Box 3. The Federal Formula for Regional Allocations

The Federal Budget Grant Distribution Formula was approved in May 2007 by Ethiopia's House of Federation. This reflected the work of a Technical Committee over a three year period. Since the original block grant formula was introduced in 1995, it had been revised four times (1997, 1998, 2000 and 2004). Three variables were included in all five versions of the formula: the size of the population; the level of development; and the regional revenue collection. In addition some of the 1995 and 1998 formulas used the area of the Region as a variable. The weight given to each variable also shifted between each revision with population moving from a weight of 30 percent in 1995 to 65 percent in 2004.

The 2007 formula started with the assumption of equal per capita transfers, but then analyzed the regional revenue capacity and expenditure needs. For revenues, the formula looked for example at the expected tax collections given the tax base, as compared to the actual tax collections. It looked at different per capita expenditure needs through a detailed sector by sector analysis of each of the sectors for which Regional governments were responsible. The resulting allocation is shown in the table below, excerpted from the document describing the Formula. (The New Federal Budget Grant Distribution Formula, published by the House of Federation, Addis Ababa, May 2007.) As is evident the formula is important in raising allocations for the smaller, less developed regions where the expenditure needs variable is particularly powerful, though this is partly offset by their weak revenue raising efforts. Thus Gambela for example with only 0.34% of Ethiopia's population gets 0.92% of the grant allocation. The largest reallocation is from Oromia with 36.7% of population and 33.7% of grants.

TABLE 4.1: SUMMARY OF DIFFERENCES IN REVENUE CAPACITY AND EXPENDITURE NEEDS ASSESSMENT

Region	Average Population	Average per Capita Transfer	Difference in Per Capita Revenue Capacity	Difference in Per Capita Expenditure Needs	Sum of (2), (3) and (4)	(5) multiplied by (1)	Percentage Share
	1	2	3	4	5	6	7
Tigray	4.10	88.95	-5.04	10.25	94.16	385.59	6.38
Afar	1.33	88.95	3.33	21.95	114.23	151.57	2.51
Amhara	18.06	88.95	4.26	-4.57	88.63	1600.84	26.49
Oromia	24.97	88.95	-3.92	-3.44	81.59	2037.62	33.72
Somale	4.09	88.95	6.14	3.58	98.67	403.68	6.68
B,S Gumuz	0.59	88.95	-4.42	60.54	145.07	86.03	1.42
SNNPR	14.01	88.95	3.06	-2.67	89.34	1252.10	20.72
Gambela	0.23	88.95	-22.59	172.80	239.15	55.87	0.92
Hareri	0.18	88.95	-56.91	133.38	165.41	30.40	0.50
Dire Dawa	0.37	88.95	-34.02	52.43	107.36	39.64	0.66
Total/ Average	67.94	88.95	0.00	0.00	88.95	6043.34	100.00

Source: Government of Ethiopia. Federal Budget Grant Distribution Formula. House of Federation. 2007.

4.7 The project development objectives and intermediate outcome indicators included in the Results Framework for the first instrument are thin and probably reflect the limited time available for preparation of PBS and the difficulty of putting in place some of the baseline data and monitoring systems needed to provide more complex objectives. Thus, for example, there is nothing on the expansion of basic services for the poorest quintiles, which would have been important information to include in the results framework. The indicators for Objective 1a, the protection of basic services, are limited to one rather vaguely defined indicator on education, added when the additional financing was approved, and the health indicators discussed under Instrument 1c below. There is nothing on agriculture and water supply and sanitation despite substantial flows of block grants to these sectors. Access to water supply in particular would have been an important and useful indicator to add to the list. On the process side a number of indicators for the second objective are relevant also to the first objective since they cover fiduciary aspects, capacity building and transparency. Project achievements against the indicators related to Objective 1a are as follows:

Instrument 1a: Outcome Indicators

- Sub-national governments expenditure on basic services is maintained or increased with respect to the previous fiscal year: *Target 98% achieved*[35]

Instrument 1a: Intermediate Outcome Indicators

- Aggregate level of block grant transfers to regional governments. *Target 90% achieved.*
- Transfers of block grants to local governments made in accordance with intergovernmental fiscal rules. (i.e. formulas): *No quantitative indicators but interviews of the evaluation in regions and woredas indicated that the target was achieved. This would need to be validated however, through field level data collection.*
- New teachers recruited in the education system: *No quantitative target was provided. Number of primary teachers increased by 62% and number of secondary teachers by 22%.*

4.8 An important benefit of the project was that it put in place management systems such as timely reporting by the woredas on utilization of funds, and a monitoring and evaluation framework. A key part of the program has been capacity building at the Regional and woreda levels. Starting in 2005, 800 woreda staff have received training in accounting for example. The IBEX system is now running in 1700 locations, but there are still gaps.[36] The PBS has provided 3600 computers as well as printers and other equipment. In addition,

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[35] In calculating percentage achievements the evaluation uses the difference between the target and the baseline as the denominator.

[36] IBEX is the Integrated Budget and Expenditure management system which is intended to connect Federal, Regional and woreda budgets and expenditures against budgets. The Government was implementing IBEX prior to the PBS, as part of the pre-existing and ongoing national PFM reform effort. Support was provided by USAID, Irish Aid, etc. through the Decentralization Support Activity (DSA) project, managed by Harvard University. In Benishangul region the evaluation team was told that only 4 woredas out of 21 are currently using IBEX though they are hoping for a substantial increase in the number next year.

41,000 officials have received training against the original target of 17,000. Even then it must be acknowledged that there are still huge data gaps at the woreda level. The IBEX does not run everywhere and even where it does it is often difficult to track actual expenditures at the woreda level. In addition the project put in place a structure for carrying out fiscal analysis on a regular basis to monitor and deepen the Bank and DPs understanding of the fiscal management in Ethiopia (See Box 4 below).

Box 4. Integration of Public Finance work into the PBS framework

As a complement to the PBS process there was a need for systematic reporting on public finances, inter alia of course to validate whether the tests were being met, but also as an input into the evolution of the structure. Traditional Bank Public Expenditure Reviews (PERs) which can take 18 months to prepare and often only appear three years after the concept stage, were regarded as unsuitable for this purpose and a decision was made to prepare a much more focused Public Finance Reviews. Such reviews were prepared for 2008, 2009 and 2010. The reviews had two components. The first was a short term analysis focused on the block grant allocations in the broader public expenditure context. The second was to pick up on longer term issues that could be looked at over time and reported on in the Public Finance Reviews. These were joint reviews with donor input. For the 2010 PFR which focused on decentralization, extensive case studies on particular Regions were prepared as background papers. The concept stage was participatory with the Government and the Regions, and a government counterpart team was set up to work on the data. The reports were disseminated in Addis Ababa and in the view of the TTL had an impact on the allocation process and formulas. The documentation formed the basis for one week training programs for each Region.

Source: World Bank Public Financial Reviews for Ethiopia, 2008, 2009 and 2010.

4.9 In addition to the above, it is also useful to look at the trends in the overall number of Regions and woredas. In some African countries increases in the number of local authorities have become a favorite instrument for patronage on the part of governments. At the same time it creates increasing administrative costs and dilutes the available capacity. While initially there was a fairly rapid expansion from around 700 in 2005/6 to 788 woredas and towns in 2009/10, since then it has been marginal, growing to only 814 in 2012/13. It may be that the movement to locate civil servants at the kebele or village level is playing this role in Ethiopia. It would be useful for the PBS team to monitor these trends and assess whether the expansion to the kebele level is warranted in terms of basic service provision, or whether it is diluting the limited capacity even further.

4.10 **Instrument 1b: Local Investment Grants**: In the course of implementation, it became increasingly clear that building local empowerment meant giving local governments authority over more than salaries and some minimal maintenance expenditures. As a consequence, with the decision to provide Additional Financing under PBS, the Bank also supported a pilot project for a Local Investment Grant (LIG).[37] This proved extremely popular with local communities since it gave them additional resources (of the order of $250,000 per woreda, in some instances tripling or quadrupling usual capital expenditures) that could be spent on the investment activity of their choice, whether it was fixing the school

[37] Although the LIG was financed under Component 1, its objectives fit more naturally under Component 3 and therefore we have chosen to discuss it here.

roof, or rehabilitating the water supply, or constructing a new clinic. The decisions were made in a participatory fashion at the local level. The LIG also appears to have succeeded in leveraging substantial local contributions to project implementation. The evidence suggests that in the initial phase the LIG satisfactorily met its objectives.

4.11 A review of the LIG was carried out from January to April 2010 with field visits to 10 woredas. The review indicated a significant number of positive achievements: high levels of commitment; staffing in place in all woredas for planning financial management and accounting; high levels of physical implementation; and 84 percent of projects assessed as having satisfactory technical quality. However, the review noted more than 20 'issues constraining further progress' that needed to be addressed. Almost without exception these are areas where institutional and human capacity will need to be strengthened if the decentralization is to result in effective planning, budgeting and management at the woreda level.

4.12 The evaluation is of the view that it was a mistake that this important program was not included for financing under PBS3.[38] The reason given is that the Government did not feel comfortable with a pilot that provided additional resources to a few districts and was concerned with the appearance of favoring some over others. For the Bank a particular source of concern was the finding of the review team that "the procedures to comply with the Environmental and Social Management Framework and the Resettlement Policy Framework were not given proper attention by federal, regional and woreda governments since no orientation/training was provided."[39] In addition an EU evaluation team had a lukewarm response to this component which seems to have influenced donor perceptions. This needs to be set against the fact however, that this is the one instrument that is capable of providing a meaningful basis for strengthening planning, budgeting and management capacity at the woreda level. That is why it was added to PBS. If the PBS is to continue over the longer term it should have been supporting an increasing shift from financing recurrent expenditures to funding maintenance and capital investments. The demise of the LIG may be a severe blow to the longer-term viability of the program.[40]

Instrument 1b: Outcome Indicators

- Percentage of woredas receiving LIG that adopt and implement new national standards for planning, budgeting, environmental screening and resettlement*: 2010 LIG review indicates that all 10 woredas surveyed had adopted standards for planning, budgeting, procurement and financial management, but not for environmental screening and resettlement. The target was 40%. Weighting each area equally gives achievement of 167%.*
- Percentage of LIG annual allocation spent by woredas: *Target 109% achieved.*

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[38] "The feeling was that the LIG had not had a fair shot. It needed more time. It made the budget processes meaningful. No-one was willing to step up and do the heavy lifting needed to get the LIG extended". (a donor)

[39] Quoted in ICR: para. 23, p. 42

[40] After dropping the LIG the Government announced that it was establishing an MDG fund that would fund capital expenditure linked to the achievement of the MDGs at the woreda level, controlled at the regional level.

Instrument 1b: Intermediate Outcomes

- Number of Pilot LIG woredas which have successfully completed all preparatory activities to improve the quality of capital investment. *This may be interpreted (as in the ICR) as "participation in training conducted by MOFED to reinforce operational methodology and introduce LIG procedures. On this basis achievement was 95% against an 80% target and the target was therefore 119% achieved.*

4.13 **Instrument 1c: The Health Services Facility.** The data suggest that this instrument helped to promote the expansion of coverage of basic health services in order to assist Ethiopia to achieve the MDGs. However the attribution to the project is doubtful. Since this was an 'investment program' embedded in a budget support context, it predictably did not meet the schedule of the rest of the project. The last 9 months of the extension of the project was almost entirely to allow for disbursement of Component 2 that supported this instrument. Component 1 had already disbursed fully by that stage. Procurement issues delayed this component and the imports of equipment and pharmaceuticals it funded were only available towards the end of the project, so that when the project closed it was impossible to attribute impact to these. In the second PBS however, these goods did contribute to project impact.

4.14 The PBS design recognized that higher level impacts from this instrument were unlikely in such a short period even if the procurement had been timely, and the focus for component 2 was therefore not on the higher level impacts such as the MDGs unless, as in the case of malaria, short term impacts could be significant. The data show high levels of achievement against the targeted outcomes. The project defines four PDO and four intermediate outcome indicators of relevance to instrument 1c. While these are more comprehensive than for other instruments they notably do not include any breakdown of achievements by income group.

Instrument 1c: Outcome Indicators

- Immunization DPTS/Penta for children under one year: *DPTS target 89% achieved; Penta target 131% achieved.*[41]
- Contraceptive acceptor rate of women in the age group 15-49: *Target 97% achieved.*
- Malaria case fatality for children under one year of age: *Target 108% achieved.*
- New malaria cases: *Target 148% achieved.*

[41] Where quantitative achievements are identified and where their definition is unambiguous, the evaluation has made use of the data provided in the ICR, which draws on the project files and various Government of Ethiopia sources. Where there is a question of judgment about the use of particular numbers, or where qualitative assessments are implied however, the evaluation has in all cases followed through in order to provide an independent assessment.

Instrument 1c: Intermediate Outcome Indicators

- Distribution of hormonal contraceptives: *Target 159% achieved.*[42]
- Numbers of health extension workers: *Target 168% achieved.*
- Numbers of Insecticide Treated (Mosquito) Nets (ITNs distributed: *Target 113% achieved.*
- New pharmaceutical and medical equipment procured. *Target 69% achieved for pharmaceuticals and 98% achieved for medical equipment.*
- Contraceptives procured. *Target 101% achieved.*

4.15 The broader achievements of basic service provision to the MDGs are however obviously of considerable interest both to the program, and especially to the DPs, and it is unlikely that the program would have been undertaken or evaluated by them as successful except in the context of significant progress towards MDG achievement. Overall the outcomes over the period as shown in Table 5 below are very positive. The DHS data show the following trends for under-5 and infant mortality. Similarly positive results are shown in the annex for the education sector under school enrollment and primary school completion rates. [43] A view from the evaluation mission visits to regions shows, however, that there is still a long way to go (Box 5).

Table 5. Infant (i.e. Under-1) and Under-5 Mortality Trends

Survey	***Under-5***	***Infant***
2000 DHS	166	97
2005 DHS	123	77
2011 DHS	88	59

Source: Taken from DHS survey for Ethiopia in years cited.

[42] The ICR did not include information on this as it was not available at the time of publication. Subsequent GOE publications on health indicate that distribution was equivalent to 12.18 million couple/years of protection. This compared with the baseline of 1.07 million in 2005 and the target of 8.75 million.

[43] Annex B provides this data broken down by quintile.

Box 5. An Impressionistic Ground Level View of Basic Services in Ethiopia

The evaluation team visited schools, hospitals and clinics in four woredas in three regions. The impressions gained, while obviously subjective, and based on a limited sample,suggest that there is still a long way to go. The structures were in place, but in almost all cases in serious need of maintenance, roofs were leaking and windows broken. Cleanliness in schools, but more seriously in hospitals and clinics, was a major issue. The schools generally lacked access to water and one textbook is supplied for every two students. Blackboards were available and in use but there were almost no instructional materials on the bare walls. The school desks were usually in a terrible state, and in one school visited a classroom had been converted into a graveyard for broken desks – apparently it costs more to repair them than to buy new ones. There is good news as well. Teacher absenteeism did not seem to be a problem in the schools visited and in one school teachers were meeting in a well-appointed library to discuss the next year's curriculum. Teacher/student ratios in most woredas visited of around 40-50 seem reasonable by comparison with some other low income countries. This is not uniform however. In one woreda, the ratio went up to 70 pupils. Hospitals seemed to have the basic equipment and one had a particularly well stocked pharmacy with a wide range of medications obtained through USAID. Hardly anyone seemed to be at the hospitals or clinics – all had beds but none were in use. This was particularly striking in the delivery rooms. The woredas receive budget based on the number of women who may be pregnant in the woreda. In one woreda visited budget utilization for deliveries was 5 – 10 percent. The shortfalls are because people are not coming to use the services. The problem is lack of demand, perhaps related to hidden costs.

Source: The evaluation team.

4.16 A concern that has been expressed about the impact of basic service provision in Ethiopia and by extension, the PBS, is that the data seem to show that health outcomes for the bottom two quintiles of the income distribution were stagnant during the 2005-2011 period or improved by substantially less than other quintiles. This seems particularly the case for under-5 mortality and infant mortality (see Annex B). The counter-argument to this is first that the Demographic and Health Survey (DHS) data on which this is based need to be interpreted carefully since they reflect the preceding 10 years and in Ethiopia's case are likely to have been impacted by droughts and civil wars; second that given the pervasiveness of poverty even reaching the second and third quintile means a substantial improvement for the near-poor; and third, the longer term trends suggest that overall Ethiopia is moving, if not to achievement of the MDGs, at least to very substantial gains in most of the key indicators. In the view of the Ministry of Health (MOH) the benefits of PBS should be visible for the lower quintiles in the next set of DHS data.

Objective 2: Promoting increased financial transparency and accountability

4.17 The second objective was an increase in financial transparency and accountability at all levels of Government. This was supported by two instruments. The first was the Financial Transparency and Accountability (FTA) program itself and the second, the support for Social Accountability implemented through Civil Society Organisations.

4.18 **Instrument 2a: The FTA program**: Given the difficulty of providing an evidence base for outcomes in this area, the project designed a survey instrument the FTAPS (Financial Transparency and Accountability Surveys). A baseline survey was undertaken but

only completed in December 2008 and reported on in June 2009 by which time PBS was close to completion, giving the appearance that it received attention only when renewal of PBS support was at hand. The undertaking of the FTAPS was itself one of the development objectives of the program. The FTAPS findings are discussed in Box 5 below.

Box 6. The Financial Transparency and Accountability Perception Survey (FTAPS)

FTAPS represents a major innovation and contribution of the PBS that offered the potential of assessing progress on the ground in basic service provision, transparency and accountability. However, it was poorly integrated into the Results Framework of the project. The end-2008 survey, reported in 2009 (There was a follow-up four years later) provides an important baseline. The Federal Ministry of Finance deserves a great deal of credit for signing off on a report which states that "The most critical finding ...is how uninformed citizens are with regard to the budget. . . Multiple statements from Focus Groups discussion participants indicate that government does not want the citizens to know about the budget." 74% of respondents said they knew nothing about the role of the elected city or woreda councils. Another striking finding was that less than one-third of respondents thought the local administration acted in a fair and honest way when giving out contracts. In addition to findings on FTA, the Survey also has rich data on public perceptions of the quality of basic service provision.

Source: Financial Transparency and Accountability Perception Survey Report. 2009.

4.19 The key operational programs under the FTA were capacity building and the public posting of budgets at the regional and local level. There has been a great deal of rhetoric in Bank documents about what a signal achievement the posting of these budgets is. The evaluation visited three regions and four woredas in different parts of the country.[44] The budget was indeed posted in all of them through a chart with pictures of different activities and the budget figure alongside each activity, but without any comparative data on changes from the previous year or averages for other regions or woredas.[45] The mission did not observe anyone looking at these charts or any pedagogic use being made of them with groups of schoolchildren. While it is probably worth doing, it only constitutes a very small step along the road to fiscal accountability and participatory review at the local level. The picture below shows the posted budget in one woreda visited by the evaluation team.

[44] The Regions were Southern Nationalities, Oromia and Benishangul.

[45] "What we observe are baby steps. This is not participatory budgeting." (Bank staff).

Figure 1. The Woreda Budget Post

Source: Evaluation mission photograph.

4.20 What was more significant was the requirement that the woreda council review and approve the budget. Discussions at the local level suggested that this requirement was taken seriously and there was active participation. The problem with this is that given the large proportion of salaries to total budget the scope for prioritization and re-allocation is extremely limited. In one case the block transfers were not even sufficient to cover the full salary cost at the woreda level and the balance had to be met from own revenues. As a consequence resources to spend on maintenance are very limited. There were serious maintenance issues at every one of the clinics and schools visited by the mission. . Although in principle maintenance expenditures are budgeted and managed at the woreda level, the line units at the local level seem to identify more closely with the concerned sector ministry than operating in an integrated fashion at the woreda level. The line ministries seem to have ceded very little of their control over local expenditures at the sector level.

4.21 The results framework for this instrument was clearly very difficult to design. It appears to place excessive emphasis on the relatively simple indicator of posting of budgets in Regions and woredas. With hindsight it would have been more useful to emphasize the role of woreda councils in the budget process and to explore to what extent these bodies had met and discussed budgets, and if there had been any changes as a result of these discussions. Another indicator that is largely missing is that of capacity development. The provision of

training was only used as an indicator for the LIG46 and not for the overall budgeting and planning process.

Instrument 2a: Outcome Indicators

- Citizens have improved access to budget information: *The baseline was zero and the target was an "increasing number of citizens informed about how to access public budget and expenditure information". Of those surveyed for the FTAPS 91% indicated that they did not know how much money their city administration or rural woreda has and how it is spent.* [47]
- Sound baseline information made available showing citizens' understanding of and engagement in public budget process*: The FTAPS baseline survey was completed but with a delay against the target date which translates into 83% achievement.*

Instrument 2a: Intermediate Outcome Indicators

- Number of regions and woredas that disclose public budget information: *The target was 85% of woredas posting budget information and achievement was 90%. Target 106% achieved.*
- Percent of public service delivery facilities posting in their facility standard service delivery templates with completed information on budgets, resource inputs and service standards. *The target here was 40% but the template was not yet ready by project completion. Target 0% achieved.*
  Number of woredas that post "laypersons" budgets (following new templates developed by consultants). *The target here was 50% but the templates were not ready for use by project completion. Target 0% achieved.*

4.22 **Instrument 2b:** The Social Accountability component funded CSOs to go to local communities and work with them in a particular sector, explaining to the local councils the objectives in the sector and how the expenditures related or did not relate to the achievement of those objectives. Most of the evidence here comes from the CSOs themselves who are obviously to a large degree, beneficiaries of this component. In their view the component: a) familiarized Ethiopia with social accountability; b) piloted a practical approach to the topic and c) has motivated the NGO sector to take public positions on these issues. They concede however, that even now some years down the road, the program remains at a very early stage of implementation. During the PBS period, t-he steering committee does not seem to have evolved into an effective mechanism for steering the program. Tools such as citizens' report cards, which were supposed to be used quite widely, have only been implemented in a few

[46] Even for the LIG the indicator does not explicitly mention training provided, though the ICR has chosen to interpret it in this way. See ICR page xi.

[47] The ICR chose to interpret this as being identical to the first intermediate outcome below which was whether this information was posted. In fact the indicator is about awareness among citizens of the posting. This was not asked by the FTAPS and therefore has been interpreted as knowledge of budgets, admittedly a more demanding criterion.

instances. Some of the anecdotes the evaluation heard of experience on the ground were exciting in terms of the potential of this approach.

Box 7. A Bank Staff Perspective on the Government's Commitment to Social Accountability

The election results came as a shock to the Government. They understood that there was a significant degree of unhappiness out there. They went to talk to people in the regions and asked them what went wrong. They saw the good governance package supported by the PBS and PSCAP as a way to address some of these concerns. In particular they tried to move more responsibility down the system. There were more woredas, more council members and even an attempt to promote village level structures. This has created a good environment for the PBS social accountability program. It is seen as a useful addition.
Source: Interviews conducted by the evaluation team.

4.23 The indicators for the Social Accountability pilots are, in essence,/ first, that they are happening and second, that Government is not undercutting them. Even by these rather modest standards, the outcomes are ambiguous. The component has been very slow to get off the ground, first because of the uncertainties created by the legislation discussed earlier, and second, in the view of some donors because the Bank was not really as invested in this part of the objective as it was in the other objectives. The question remains whether these pilots are indeed achieving the objectives of enhanced social accountability.

Instrument 2b: Intermediate Outcome Indicators

- Strengthened engagement of CSOs on budget literacy and social accountability: The target here was that at least 6 'large' pilots on social accountability would be finalizing implementation by project completion. *12 pilots were carried out under PBS. However it should be noted that these were modest pilots and were short of finalizing implementation by project completion. In the circumstances, this is rated as not achieved.*
- Improved dialogue between GOE and CSOs on social accountability and basic services delivery issues. *This is very difficult to assess. On the one hand a large number of pilots were undertaken and there was substantial government support and commitment.*[48] *On the other hand this came in the context of the severe Government restrictions on CSO activities described above. In the circumstances, this is rated as not achieved.*

5. Efficiency

5.1 Although technically PBS is an investment program, most of the program consists of budget support for block grants. Since rates of return are not calculated for budget support, the efficiency of the program has not been evaluated. Although the PAD had an extensive annex which looked at sector-specific rates of return for the four protected basic services, this

[48] "The level of Government support for the social accountability pilots and the commitment came as a surprise to us," (a donor)

was not followed up.[49] Subsequent to the preparation of the ICR, an economic analysis was carried out for the health component which yielded an estimate of an internal rate of return of roughly 13 percent. Similarly DfID's economic analysis for the health sector identified an IRR of 23 percent though this also covered the road sector, which was only introduced in PBS2. These were calculated based on the national average under-5 mortality rates. Given that the health component only accounted for 11 percent of the total funding of the project, the evaluation is of the view that it is inappropriate to assign a rating for efficiency to the project.

6. Ratings

Outcome

6.1 **The overall outcome of the PBS is rated *moderately satisfactory.***

6.2 The relevance of the project's objectives was *substantial.* The program represented a significant effort by the Bank to put together a coherent and useful operation in a very short time-frame. The key concern is that the Bank did not do enough to build into the program a comprehensive, well informed and monitored approach to fiscal policy issues at the local level. The PBS and its sustainability are fundamentally linked to important questions of revenue mobilization and expenditure allocations. There was thus the potential for focused engagement and well-selected analytic studies. One other design issue was the decision to include the Health Services component which was a questionable fit with the rest of the operation, focused as it was on services provided by the line ministry rather than building promoting the capacity and accountability of the regional and woreda officials.

6.3 With regard to efficacy, basic service provision in Ethiopia is still work in progress. However, the evaluation recognizes that it is only when measured against a baseline that the efficacy of the program can be evaluated. The results framework discussed in Section 4 of this report suggests that overall achievements have been substantial. The evaluation assessed the level of achievements under objective 1 as being *high*. Basic service delivery was protected, the LIG made a promising start on promoting improved planning and implementation management at the local level, and the projected outcomes of the MDG facility, in terms of increasing access to vaccination, ITNs, contraceptives and other pharmaceuticals and medical equipment, were met. The evaluation rated the outcomes of objective 2 however, as *modest* given the lengthy delays that were encountered and a lack of clear prioritization of these issues by either the Bank or the Government.

[49] The ICR Review argued that efficiency should be regarded as modest since the results were only realized after project completion due to procurement delays and the late delivery of the template for accountability. This is less a comment on the efficiency of the program however, than the awkward bundling together of budget support and investment loan components in the operation.

Table 6. PBS Achievements by Objective

OBJECTIVE	ACHIEVEMENT (%)
OBJECTIVE 1a: PROTECTING BASIC SERVICES ***Rating:* Substantial**	
1) Sub-national governments expenditure on basic services is maintained or increased with respect to the previous fiscal year	98
2) Aggregate level of block grant transfers to regional governments	90
3) Transfers of block grants to local governments made in accordance with intergovernmental fiscal rules. (i.e. formulas)	100
4) New teachers recruited in the education system:	100
OBJECTIVE 1b: PROMOTING LOCAL PLANNING AND INVESTMENT ***Rating:* Substantial**	
5) Percentage of woredas receiving LIG that adopt and implement new national standards for planning, budgeting, environmental screening and resettlement	83
6) Percentage of LIG annual allocation spent by woredas	101
7) Number of Pilot LIG woredas which have successfully completed all preparatory activities to improve the quality of capital investment	119
OBJECTIVE 2: SUPPORTING THE ACHIEVEMENT OF THE HEALTH MDGs ***Rating:* Substantial**	
8) Immunization DPTS/Penta for children under one year	110
9) Contraceptive acceptor rate of women in the age group 15-49	97
10) Malaria case fatality for children under one year of age	108
11) New malaria cases	142
12) Distribution of hormonal contraceptives	159
13) Numbers of health extension workers	168
14) Numbers of ITNs distributed	113
15) New pharmaceutical and medical equipment procured	83
OBJECTIVE 3a: ENHANCING FINANCIAL TRANSPARENCY AND ACCOUNTABILITY: ***Rating:* Modest**	
16) Citizens have improved access to budget information	45
17) Sound baseline information made available showing citizens' understanding of and engagement in public budget process	83
18) Number of regions and woredas that disclose public budget information	106
19) Percent of public service delivery facilities posting in their facility standard service delivery templates with completed information on budgets, resource inputs and service standards	0
20) Number of woredas that post "laypersons" budgets (following new templates developed by consultants).	0

OBJECTIVE	ACHIEVEMENT (%)
OBJECTIVE 3b: PROMOTING SOCIAL ACCOUNTABILITY ***Rating:* Modest**	
21) Strengthened engagement of CSOs on budget literacy and social accountability	0
22) Improved dialogue between GOE and CSOs on social accountability and basic services delivery issues	0

Source: Compiled by the Evaluation team.

Risk to Development Outcome

6.4 Overall the risks to the development outcome are rated as *Significant.* Perhaps the key risk for a project of this nature is the *fiscal sustainability*. The evaluation found very little analysis of the long term fiscal needs for sustaining basic service provision at the local level, the impact of increasing numbers of the expansion of administration of services to the kebele level on fiscal sustainability, the implications of increased employment and salary costs for the longer term availability of funds for maintenance and non-salary recurrent expenditures, the role of generation of resources at the local level in this area, etc. This could and should have provided the Bank with an important entry point into the dialogue on overall fiscal management, yet this has not been done. Sacrificing the high level macro and fiscal policy dialogue that is central to Development Policy Operations is a significant shortcoming of the PBS design.

6.5 As far as the *institutional sustainability* is concerned, it is not realistic for the Bank to work with 800 woredas, but it is realistic to work with 11 provinces. The PBS did have a substantial capacity building component, but in some areas it appears not to have been well coordinated with the PSCAP program which was building capacity for the decentralized system. With the ending of PSCAP the Bank needs to move much more forcefully than it has thus far into capacity building at the provincial level with a more holistic approach. The Bank and the Government seem to be doing an effective job of knowledge sharing across regions and to some extent even across districts. There are numerous workshops and events for local officials which allow good practices in one part of the country to be shared with others. In addition, the Ethiopia case is serving as a model for other countries and hopefully at some point there will be feedback from them that can serve to improve the PBS design.

6.6 The failure to continue with the implementation of the LIG constitutes a major missed opportunity in terms of sustainability of the project. It could have provided the basis for a quantum increase in participation and local empowerment. It also raises some serious questions about the Government's own commitment to the decentralization process.

6.7 Overall the donor support for the block grant system is likely to be sustained through 2015 given the concern of the donor community not to do anything that might jeopardize the achievement of the MDGs. PBS and PBS2 each covered three years, but PBS3 following recommendations of various review and evaluation teams has moved to a five year period

which will take the program beyond the MDG cut-off. Whether there will be continued donor support after that remains to be seen.

6.8 The political risks inherent in the Ethiopia situation are high. Given the diversity of some of the regional populations, the risks of internal conflicts are high and recognized by the Government which sees the decentralization as an important instrument for maintaining support and cohesion of the country. Obviously the Government's own posture constitutes a program risk. It is unlikely that the current situation is sustainable as a 'steady state'. The Government will either need to liberalize and allow public opinion to 'vent' and enable power sharing to a greater degree than at present, or it will be forced to even more restrictive and autocratic steps to retain control. The latter situation, which given past practice is probably the more likely, is a broad program risk which affects the overall level of donor support and the Bank program in Ethiopia.

Bank Performance

6.9 Bank performance is rated *moderately satisfactory*. As far as quality at entry is concerned, a key issue is whether support through the PBS has crowded out other potential instruments which might have played a more effective role in supporting the policy dialogue on broader macro-economic issues, the financial sector and PSD. There are two questions here. First, has the Bank done enough to exploit the potential that the PBS itself offers to engage in a dialogue on broader policy issues? The PBS and its sustainability are fundamentally linked to important questions of revenue mobilization and expenditure allocations. In the view of the evaluation, there was the potential to go beyond the current levels of engagement on these issues, through focused engagement and well-selected analytic studies. (The first Bank study on revenue mobilization potentials at the local government level for example, is first included in the work program for FY2014). This would not have been easy to do. The Government view, as indicated to the evaluation, is that other issues should the taken up through other channels. In their view, the dialogue on PBS relates to how to improve delivery, quality and governance of basic services.[50] This takes us to the second question, whether there are other opportunities for a dialogue on broader development issues? The Bank view has consistently been that there is a need to develop other channels for dialogue and specifically to consider budget support through Development Policy Loans which would allow for a resumption of discussions on some of the issues that cannot be taken up in the PBS context. The Government has equally consistently rejected this.

6.10 Among those the evaluation team met with, -- staff, donors and government -- there were mixed views as to whether the earlier series of policy loans had been effective in moving forward the various agendas on the core economic strategy issues and how serious

[50] The Government view is that there are already a multitude of opportunities for a broader dialogue on macro/financial/PSD issues. They cite the high level forums where the political and private sector agendas are discussed, the specialized joint working groups with donors covering topics such as agriculture, transport, etc., the EU-African summit meetings, etc. They also see the six monthly macro-economic updates of the Bank as also providing a useful occasion for discussion. They take the view that the context for policy dialogue should not be 'conditionality'. They also expressed some skepticism of the role of Bank analytic work, outside the updates and the 'doing business' reports.

the loss through the cessation of the PRSC series after the crisis, has been.[51] In view of this, the evaluation is of the view that there is little purpose at this point in time in the Bank constantly pushing for a resumption of policy-based lending outside of the PBS. For practical purposes the PBS is the 'only game in town' and the effort should rather be to leverage it through focusing analytic work on some of the important margins of decentralization. For example work on revenue potentials in woredas could well contribute to a study on the policy and institutional framework needed to support enterprise development in rural woredas, including the role of the banking system, etc. This in turn could feed back into the design of future phases of the PBS. For this to work however, some important nuances need to be introduced into the core objective of the PBS by defining it as support for more, and more effective, basic service provision through enhancing the transparency, efficiency, capacity and accountability of the decentralization process and local government units. This would not preclude the opportunistic use of other instruments – analytic work, technical assistance, focused operations in areas such as civil service reform, etc. which could provide entry points into a dialogue on some key areas of macro-policy.

6.11 This fruitless pursuit of an alternative instrument to support a macro-policy dialogue, might explain why, in the view of some donors, the Bank under-resourced the PBS. For much of the time the Task Team Leader was Washington-based, and the Bank did not provide the kind of pro-active leadership and supervision for the FTA and Social Accountability components which might have got them off the ground more quickly. The Social Accountability component in particular probably needed its own TTL.

6.12 Another area of concern about Bank performance relates to the slowness of the Bank in moving to resolve some of the procurement issues which arose under the Health Services Component. The procurement process under PBS began with the hiring of procurement agents. This was supposed to be done in 2006 so that a start could be made on procurement. In practice this seems to have run into obstacles and the Bank had to re-advertise before settling on Crown Agents. In the view of the MOH this was 'more of a burden than a benefit'. The existing procurement department was sidelined because the Bank felt that they lacked the capacity. Crown Agents prepared a procurement package. The subsequent audits found a number of problems with the implementation of this.

6.13 With regard to fiduciary management, the evaluation team consulted with the Bank's Internal Audit department which indicated no major issues of concern.

6.14 As far as safeguards are concerned, the PBS was a Category "B" project and OP 4.01 was triggered by the health component. In discussions with the MoH, the mission concluded that the guidelines issued, which addressed concerns over medical waste disposal, were in place and being implemented. Safeguards addressing risks over involuntary settlement and the resettlement policy framework have been raised regarding PBS. These were discussed in the ICR and have become the subject of an ongoing case with the Inspection Panel. In light of this, the evaluation team did not feel it was appropriate to cover this topic.

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[51] An example: "The confrontational style of dialogue was not working well. The budget support type instrument was not being effective. The PBS has gotten us further than the PRSCs were doing" (a donor);

6.15 The Bank's ICR is a thorough review. It provides a detailed description of what has been achieved. Unfortunately the tone throughout the main text of the ICR is of special pleading. Every problem identified is on the verge of solution or else glossed over. To give a small example – it took the Government two and a half years to complete the step of approving the prototype FTA tools.[52] The ICR describes this as follows: "During the PBS I period, the four core prototype FTA tools were eventually developed, validated, disseminated to regions and posted on the website for customization by the regions and use." In addition the ICR takes a narrow perspective on the project – a literal assessment of what was achieved and what was not achieved. The ICR is redeemed however by Annex 11 which is a very insightful 17 page discussion of the PBS relative to other instruments. This section draws on the 2008 PPAR on the earlier series of policy loans (the ERSC, ESAC, PRSC1 and PRSCII).

Borrower Performance

6.16 The Government of Ethiopia's performance is rated *moderately satisfactory.* It had mixed feelings about the PBS at entry and the implementing agency. Over time however, the instrument has earned their appreciation and support and the level of commitment, even to the components on FTA and Social Accountability which initially had been very difficult to accept, has increased substantially. For much of PBS implementation, quality left something to be desired, with significant delays in decision-making, for example, on the template for budget posting, but it is apparent that in the course of 2008 the Government's commitment increased, and by putting in place COPCU, with effective management and by moving with some urgency on health procurement, the key objectives of the program were eventually met.[53]

6.17 As indicated earlier during the course of implementation of PBS, the Government adopted policies that had a potentially significant impact on the CSO participation in the Social Accountability pilot. The first requirement was that advocacy CSOs were permitted to receive no more than 10 percent of their funding from abroad. This was clearly aimed at the international CSOs operating in Ethiopia. From the point of view of domestic CSOs however, an equally serious provision was the limitation on funding of 'overheads' to 30 percent of the total expenditures of the CSO. Overheads include for example capacity building for CSO officials. Given ambiguities in the definition of overheads, this could be administered in an arbitrary fashion and has had a discouraging effect on the CSO community and the development of CSOs in Ethiopia. In the view of many, this was the intention of these provisions, since advocacy activities would generally be defined as overhead. Until recently, for example, services provided by CSOs to women who were victims of domestic violence were not regarded as 'engagement in social and economic development' and as a consequence the CSOs which had been engaged in this, stopped

[52] The perception of Bank staff is that these delays were not a consequence of deliberate foot-dragging, but reflected a lack of experience and competence. Either way it would seem to reflect that the timely preparation and approval of the templates was not assigned high priority by the Government.

[53] PPARs generally distinguish performance of implementing agencies from broader Government performance. In this case however, the evaluation is of the view that the determining factor of implementing agency performance was the Government's own commitment to the program, and therefore no distinction has been made.

providing these services. While the Government's comfort letter exempted the recipients of funding for the PBS pilot from the foreign funding provision, they still needed to meet the limit on overhead funding. The response of the Bank and other donors seems to have been based narrowly on possible implications for the project, rather than reflecting concern for the longer term development of civil society organizations.[54]

7. Monitoring and Evaluation

7.1 As a consequence of the hasty preparation, the project did not get off the ground with adequate baselines or institutional mechanisms for M & E. While there was a clear calendar for the JBAR and semi-annual meetings with reporting to DPs, there remained problems of weak baseline data and incomplete indicators (e.g. for Water and Sanitation). A particularly egregious example is the inclusion of an indicator on hiring of new teachers without a baseline or target. In particularly the monitoring framework and the indicators should have reflected on the potential trade-offs between number of new teacher hires on the one hand and the quality of new teachers coming into the system. The focus on the regional level with too little monitoring of the sub-regional transfers undermined monitoring on additionality and, particularly on fairness. As a consequence the achievements of the PBS on M & E are rated *modest.* It was only in PBS2 that, in the view of both the Government and the DPs, the substantial advance in putting in place proper monitoring systems for decentralized budgets and expenditure at all levels of Government took place and is one of the signal achievements of the second phase of the program.[55]

7.2 However, even with the improvements in PBS2, the Bank appears to have lacked a clear strategic vision for M & E. It is surprising for example that there was no attempt to select, say, one of the smaller regions and pilot a more comprehensive approach to M & E, putting in place the required systems and equipment. This would have allowed testing of the needed training approaches, software, etc. All the woredas visited by the evaluation had some computers, yet most of the documents relating to basic services were prepared by hand. The lines of connection for the local administration seemed to be from each department (e.g. education and health) to their line ministry in Addis Ababa, rather than across departments coordinated through the Woreda Finance and Economic Development department. The quality of monitoring and evaluation is rated *modest.*

8. Lessons

8.1 There is no good way to end budget support in problematic contexts. There is rightly concern that donor funding should be predictable and sustained over time, but if that is the case then Government programs are based on that assumption. The cessation of budget support creates problems for the sustainability of those programs and the likelihood is that

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[54] The Government has since issued other letters of comfort and groups such as Oxfam and Save the Children are able to operate though with a substantial redesign of their delivery model.

[55] "In negotiating PBS2 we had the feeling we just did not know enough e.g. we had little or no information on access to services by income groups" (a donor representative).

the axe will fall disproportionately on the poor and vulnerable who do have limited voice and influence. This creates enormous pressure on the donor community to sustain budget support.

8.2 This makes it all the more important to think through and discuss the endgame at the outset of budget support. In this case the question of where are we headed with this program was one that should have figured strongly. Initially of course it was viewed as a stopgap, but by the time of preparation of PBS2 this should have been the key question. The continuation of the PBS is of course a feasible option, but it needs to be associated with a long-term program of enhanced capacity building and management of decentralization, local government empowerment and citizen participation.

8.3 Decentralization is a complex inter-action of programs and processes and successful approaches need to take a holistic view that clearly defines the objectives in terms of the accountabilities of the decentralized units and builds their capacity to meet those accountabilities. The PBS was initially narrowly focused on recurrent expenditures for basic service provision and it was only with the inclusion of the LIG that important areas such as planning and implementation management capacity at the local level were addressed. While it is not necessary for a single operation to encompass all aspects of decentralization it is important that the Bank's analytic work underpins a holistic view of the process and that the Bank identifies gaps and supports programs to address them.

8.4 The decision to embed a health component channeled through the line ministry, within a program of support for enhancing the management and accountability of local governments is questionable. It succeeded in supplying inputs but did not provide the follow up to ensure that those inputs were effectively used. And it diverted some of the focus that might otherwise have been placed on how well the decentralized service provision was functioning.

8.5 Where a project involves key issues of fiscal management at various levels of government there needs to be a steady long-term involvement in the project of a Public Sector Management specialist from the Bank's PREM network in addition to sector specialists (in this case from the Human Development network). Consideration ought to be given to having joint management by Poverty Reduction and Economic Management network and Human Development network. The fiscal policy issues seem to have been consistently under-represented in the program and this may well reflect the limited involvement of PREM.

8.6 The PBS presents an unusual case in which the Bank provides large scale financial support for expanded service delivery executed by subnational governments. Unlike budget support through a DPO, this support is multi-year, does not rely on annual programs built around 'prior actions' and 'triggers', and is in keeping with Paris Declaration principles placing program ownership firmly in the hands of Government. This could be an effective and efficient alternative or supplement to DPOs provided there is strong government ownership in principle and practice, adequate attention to building subnational capacity where needed, and a strong M&E system to monitor development results. Such a program

effectively takes on key features of the Bank's new Program for Results that links disbursements to defined results.

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Annex A. Basic Data Sheet

ETHIOPIA PROTECTION OF BASIC SERVICES I LOAN (P074015)

Key Project Data (amounts in US$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	2,562.91	4,860.87	189.66
Loan amount	215.00	443.81*	206.42**
Cofinancing	317.16	1,243.46	389.26
Cancellation	0.00	0.39	0.00

*It includes the Additional Financing of US$215 million.
**Not included at the appraisal of PBS. Commitment during the implementation cycle: (i) EC US$196.04 million; (ii) Spain US$12.93 million; (iii) ADB US$55 million; (iv) Austria US1.45 million; and (v) KfW US$14 million.

Cumulative Estimated and Actual Disbursements

	FY06	*FY07*	*FY08*	*FY09*	*FY10*	*FY11*
Appraisal estimate (US$M)	90.00	212.00	215.00	215.00	215.00	215.00
Actual (US$M)	91.00	205.68	393.37	437.26	437.26	445.13
Actual as % of appraisal	101.11	97.01	182.96	220.12	203.37	207.03
Date of final disbursement: 07/06/2010						

Project Dates

	Original	Actual
Initiating memorandum	09/10/2002	12/22/2005
Negotiations	04/26/2006	04/27/2006
Board approval	05/22/2003	05/25/2006
Signing	05/29/2006	05/26/2006
Effectiveness	06/02/2006	06/02/2006
Closing date	06/30/2008	12/31/2009

Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
Lending	No. of staff weeks	US$ Thousands (including travel and consultants costs)
FY04	1.33	741.94
FY05	31.54	201,432.34
FY06	153.93	845,591.02
FY07	0.10	454.88
Total:	**186.9**	**1,048,220.18 ***
Supervision/ICR		
FY06	14.30	46,993.31
FY07	195.61	729,996.30
FY08	146.16	540,157.86
FY09	124.91	437,513.72
FY10	52.84	261,118.14
Total:	**533.82**	**2,015,779.33**

* These data were obtained from the system. The total figure for spending on preparation is misleading because most of it in fact went towards preparation for the PRSC III (budget support) operation which was suspended in mid-FY06. (PRSC III and PBS I shared the same project code in the system). The preparations for PRSC III had been intensive, involving various teams within the Bank and dialogue with various sectors, as well as some analytical work on different issues.

Task Team Members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Trina S. Haque	Lead Economist	AFTH3	Task Team Leader
Eleni Albejo	Program Assistant	AFTH3	
Abebaw Alemayehu	Senior Operations Officer	AFTU1	Fiscal Decentralization
Sheetal Asrani	Legal Associate	LEGOP	Legal Aspects
Suprotik Basu	Public Health Specialist	AFTHD	MDG/Health Component 2
Marylou R. Bradley	Senior Operations Officer	AFTH1	Crosscutting Oper. Support
John Van Dyck	Operations Officer	AFCET	CMU Focal Point
Eyerusalem Fasika	Research Analyst	AFTP2	M&E
Reiner Forster	Senior Social Development Sp.	SDV	Component 4
Getahun Gebru	Senior Operations Officer	AFTH3	Education
Lawrence M. Hannah	Lead Economist	INFVP	Fiscal Decentralization
Muthoni Kaniaru	Counsel	LEGAF	Legal Aspects

Names	Title	Unit	Responsibility/ Specialty
Southsavy Nakhavanit	Program Assistant	AFTH3	
Rajat Narula	Senior Financial Officer	LOAG2	Disbursements
Gebreselassie Okubagzhi	Senior Health Specialist	AFTH3	MDG/Health Component 2
Edward Olowo-Okere	Lead Financial Manag. Sp.	AFTFM	Financial Management
Jemal M. Omer	Senior Country Economist	AFTP2	Component 1 / Fiscal Decent.
Jonathan Pavluk	Senior Counsel	LEGAF	Legal Aspects
Andrew Sunil Rajkumar	Senior Health Economist	AFTH3	Economic Analysis
Samuel Haile Selassie	Senior Procurement Specialist	AFTPC	Procurement
Agnes L.B. Soucat	Lead Economist	AFTHD	Component 2, Health
William D. Wiseman	Senior Economist	AFTH3	Fiscal Decentralization, Economic Analysis
Carolyn Winter	Senior Social Development Sp.	AFTS2	Component 3
Eshetu Yimer	Senior Financial Management Sp.	AFTFM	Financial Management
Supervision/ICR			
Trina S. Haque	Lead Economist	AFTH3	Task Team Leader
Andrew Sunil Rajkumar	Senior Health Economist	AFTH3	Task Team Leader
Eleni Albejo	Program Assistant	AFTH3	
Abebaw Almayehu	Senior Operations Officer	AFTU1	Component 1b
Philippe Auffret	Senior Social Protection Sp.		
Tesfaye Ayele	Procurement Specialist		Procurement
Shimelis W. Badisso	Procurement Specialist		Procurement
Trichur K. Balakrishnan	Lead Financial Management Sp.		Financial Management
Abiy Demissie Belay	Financial Management Analyst		Financial Management
Mesfin Bezawagaw	Research Analyst		Research Ass't / Comp. 1
Marylou R. Bradley	Senior Operations Officer	AFTH3	Crosscutting Oper. Support
Ian Leslie Campbell	Consultant		Safeguards
Tim Carrington	Consultant		
Mukesh Chawla	Sector Manager		Component 2

Names	Title	Unit	Responsibility/ Specialty
Robert S. Chase	Lead Economist		TTL for PBS II
Yoseph Abdissa Deressa	Sr. Social Protection Specialist		Consultant
John Van Dyck	Senior Operations Officer	AFCET	CMU Focal Point
Eyerusalem Fasika	Research Analyst		M&E
Lemma Argaw Findusse	Consultant		Public Financial Management
Christopher Gaukler	Consultant		Research Assistant
Lawrence M. Hannah	Lead Economist	INFVP	Component 1b
Kevin J. Kelly	Consultant		Component 4 / Governance
Jeni G. Klugman	Lead Economist		Overall Macro Issues
Girma Earo Kumbi	Consultant		Research Assistant
Berhanu Legesse Sr.	Public Sector Management Sp.		Component 1b, Cap. Bldg.
Wendmsyamregne Mekasha	Social Protection Specialist		M&E
Fikru Tesfaye	Consultant		LIG Expert
Deepak K. Mishra	Lead Economist		Component 1 / Macro
Paul Moreno Senior	Economist		Component 1 / Macro
Stefano Ellero	Consultant		Component 2
Ken Green	Consultant		Safeguards
Donald H. Mphande	Senior Financial Management Sp.		Financial Management
Abiy Demissie Belay	Financial Management Specialist		Financial Management
Southsavy V. Nakhavanit	Program Assistant		
Gebreselassie Okubagzhi	Environ.& Social. Safeguards Sp.	AFTH3	Medical waste management
Richard Olowo	Senior Procurement Specialist		Procurement
Jemal Omer	Senior Country Economist	AFTP2	Component 1 / Fiscal Decent.
Jonathan Pavluk	Senior Counsel		Legal Aspects
Janelle Plummer	Senior Government Specialist Cambodia		Component 4 / Governance Bank Office
Manuel Salazar	Sr. Social Protection Specialist	AFTSP	
Isabel Mignone-del Carril	Operations Officer	MDTF	Expert

Names	Title	Unit	Responsibility/ Specialty
Francesco Sarno	Consultant		Procurement
Sybille Schmidt	Consultant	AFTH3	Research Assistant
Luis Schwarz	Senior Financial Officer		Disbursements
Samuel Haile Selassie	Senior Procurement Specialist	AFTPC	Procurement
Agnes L.B. Soucat	Lead Economist	AFTHD	Component 2
Cassandra de Souza	Operations Analyst		Component 2
Mulat Tegegn	Financial Management Consultant		Financial Management
Lakech Tsegaye	Team Assistant		
Per Wam Senior	Social Scientist		Social Accountability
William D. Wiseman	Senior Economist	AFTH3	Component 1b
Carolyn Winter	Senior Social Development Sp.	AFTS2	Component 4
Senait Kassa Yifru	Team Assistant		
Eshetu Yimer Senior	Financial Management Sp.	AFTFM	Financial Management
Feng Zhao	Senior Health Specialist		Health MDG
Selome Belay Zegeye	Team Assistant		
Josiane Luchmun	Program Assistant	AFTSP	

Annex B. Selected health and education outcomes in Ethiopia, derived from the DHS.

The information and analysis in this annex was compiled at the request of the evaluation team, by the Human Development Sector Department of the Africa Region (World Bank).

Selected health and education outcomes in Ethiopia, derived from the DHS.
The Demographic and Health Surveys (DHS) provide data at selected points of time covering the preceding ten years. The DHS data therefore needs care in interpretation. Overall the data suggests that Ethiopia is making consistent and strong progress in reducing both infant and under-5 mortality. The data that is disaggregated by income quintile over a ten year period suggests considerable variations across the income distribution with huge improvements in the middle and fourth quintiles, but with stagnant trends in the lowest quintile and smaller improvements in the second. There are a number of possible explanations for this. Many of the poorest are located in some of the less stable regions or remote rural areas, or undertake shifting cultivation and move locations regularly. The gradual expansion of the health and education systems takes longer to reach these (although the education figures suggest impressive achievements even for the poorest groups.) In addition the out of pocket expenses for the poor in travelling to a health center, as well as the costs in foregone income of doing so need to be taken into account.

Mortality

Aggregate mortality estimates

Based on the 5-year period prior to the survey, DHS reports the following estimates for Under-5 and Infant (i.e. Under-1) mortality:

Table 7. Estimates for Under-5 and Infant (i.e. Under-1) Mortality

Survey	*Under-5*	*Infant*
2000 DHS	166	97
2005 DHS	123	77
2011 DHS	88	59

Source: DHS data.

Note that DHS also reports these 5-year periods, for a number of additional prior years--which gives a sense of past trends. Based on the latest data, ie. the 2011 data, these are:

Table 8. Births in X years prior to survey

	0 to 4	5 to 9	10 to 14	15 to 19	20 to 29
Under-5	88	133	165	212	218
Infant	59	88	101	115	121

Source: DHS data.

Wealth disaggregated mortality estimates

The DHS website doesn't report the wealth quintile specific estimates for the 5-year period estimates. They do, however, for the 10-year estimates (i.e. mortality for births in the 10 years prior to the survey). These are reported as follows using a 10 year retrospective of births from survey date.

Table 9. Mortality Rate: Under-5 mortality (5q0)

Survey	Lowest	Second	Middle	Fourth	Highest	Overall
2000 DHS	159	195	227	206	147	188
2005 DHS	130	144	144	139	92	132
2011 DHS	137	121	96	100	86	110

Source: DHS data.

Table 10. Mortality Rate: Under-5 mortality (1q0)

Survey	Lowest	Second	Middle	Fourth	Highest	Overall
2000 DHS	93	115	141	118	95	113
2005 DHS	80	86	86	84	60	80
2011 DHS	91	84	60	66	60	74

Source: DHS data.

Note that the estimates for 2011 are based on the mortality of births in the 10 years prior to 2011 - i.e. in the period 2001-2011. Finer disaggregations would require doing primary analysis of the micro-data.

Additional outcomes are available from the DHS website.

Table 11. Stunting (height-for-age - 2 SD)

Survey	Poorest quintile	Second	Middle	Fourth	Richest quintile	Overall
2000	60.6	59.9	60.4	56.7	48.5	57.7
2005	52.3	55.3	52.3	51.4	39.6	50.8
2011	49.2	47.7	45.6	45	29.7	44.4

Source: DHS data.

Table 12. Vaccination Rates

Survey	Poorest quintile	Second	Middle	Fourth	Richest quintile	Average
2000	7	8.8	9.1	17.1	33.5	14.3
2005	14.1	16.7	21.8	17.9	35.6	20.4
2011	16.8	18.2	18.2	24.9	50.5	24.3

Source: DHS data.

Table 13. School Participation

Proportion of 6 to 11 year olds who report being enrolled in school						
	POOREST QUINTILE	SECOND	THIRD	FOURTH	RICHEST QUINTILE	OVERALL
Ethiopia 2000	0.12	0.14	0.17	0.24	0.57	0.23
Ethiopia 2005	0.21	0.27	0.31	0.35	0.57	0.33
Ethiopia 2011	0.41	0.45	0.48	0.56	0.74	0.52

Source: DHS data.

Table 14. School Attainment

Proportion of 15-19 year olds who have completed grade 6						
	POOREST QUINTILE	SECOND	THIRD	FOURTH	RICHEST QUINTILE	OVERALL
Ethiopia 2000	0.03	0.04	0.05	0.08	0.49	0.17
Ethiopia 2005	0.08	0.12	0.15	0.22	0.57	0.26
Ethiopia 2011	0.18	0.25	0.35	0.48	0.72	0.42

Source: DHS data.

Annex C. Review of the current status of the Social Accountability pilot.

This report is the result of fieldwork in two woredas (Bahr Dar of Amhara Region, Dugda Dawa and Wolmera Worda of Oromia Region, interview in Addis Ababa and Document Review. The implementing CSOs[56] employed social accountability tools such as Community Score Cards (CSC).

Project relevance; according to the findings of this report, the ESAP I in particular is highly relevant to the needs and context of Ethiopia. First, it was relevant to change the lack of voices from the demand side. Ethiopian political culture has been dominated from above while the lower structure of society has been stripped of voices, and empowering the powerless through introducing and strengthening social accountability was monumental to bring about better service delivery. Second, the programs of the government of Ethiopia since 1991 primarily focus on building capacity from the supply side. Introducing social accountability would, however, contribute to the building of capacity from the demand side. The general objective of the Enhanced Social Accountability Program (ESAP) of the PBS was to strengthening the use of social accountability approaches by citizen and civil society organizations as a means to make basic service delivery more effective, efficient, responsive and accountable[57]. According to the findings of this brief overview, the project has made progress to achieve this objective, even if the sustainability issue remains a challenge. At the outcome level the project has produced encouraging results.

First, citizens' awareness of their rights, responsibilities and entitlements to get better quality services has increased. This is evidenced by the cases we collected during the fieldwork. People began to be aware of their rights and access to basic services in education, water and sanitation, and agricultural extension. Yet, the breadth of the awareness raising is limited to those community members and individuals who got the chance to get involved in the project awareness raising and, sensitization workshops, and social accountability tools exercise. Given the pilot nature of the project (technical, time and resource shortages), the project could hardly make appropriate dissemination of results to reach the broader community.

Second, the engagement between citizens to participating in, negotiate with and hold the service providers accountable has shown improvement as the result of the project. Community members, through their representatives have started to participate in influencing the service providers to allocate funds for school facilities and water points, and, at the same time, mobilizing community members to pay their share through community participation. The social accountability tools that survey the quality and access of services and the resultant interface meeting where both citizens and service providers and policy makers enter into face to face discussion to negotiate and agree in setting standards and then prepare a Joint

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[56] The CSOs that were responsible to implement the project were Jerusalem Children and Community Development Organization and Rift Valley Women and Children Development.

[57] World Bank, PAD, 2006, p. 50.

Strategic Plan for improving and attaining a specified goal by also allocating roles to each party is a novel achievement brought in by the project.

Third, social accountability tools such as Participatory Budgeting and Expenditure Tracking and Budget Transparency has given a new tool for community engagement in planning, budget and implementations. The tool demystified the highly technical and bureaucratic budget process. Citizens, who got training and participated on workshops, have now begun to deconstruct the way budgets are generated, allocated, implemented and, audited. However involvement in budget planning is challenged by contextual factors that are outside the reach of the project: budget allocation in Ethiopia generally is top-down, and, the amount of resources (like capital budget) that reaches the grass roots are so scarce that it is prioritized at the woreda level, leaving no option for the community to make choices.

Fourth, capacity of public basic service providers improved to respond to community and citizens' needs and preferences and be accountable. Our assessment shows that the frontline service providers at the woreda, schools, water distribution centers (WUC/Water Board began to understand the rights of citizens to get quality services, and began to respond to this. In all these service centers, citizens report that the service providers are giving swift responses to the demands of the service users. The Water Users' Committee/Water Boards are now beginning to handle their income and expenditures by introducing accountability procedures and the amount that each of the Water Users Committee/Water Board saves in the bank has dramatically improved. The WUC/Boards that have gotten involved in the project have much better financial capacity, have managed to maintain the water pumps, have more reserves of spare parts, extended water points for more users[58] and have ensured continuity in providing services to the water users. Thus, as the result of the ESAP, the capacity of the service providers and their responsiveness to the demands of the citizens has shown improvement.

Some of the works undertaken to make the project sustainable like the creation of community-based organizations[59] show promise, but making any of them into a self-sustained and institutionalized entity is far from complete. The impact of the project is also limited to a few individuals and institutions that are directly involved, while the vast majority remains unaffected.

The social accountability pilot now needs to be scaled up to reach the vast majority of the demand side. The pilot project only covered a very small proportion of the total need. Second, sustainability of any forthcoming project must be given due consideration, especially, in institutionalizing the approach. Currently the government of Ethiopia seems to be more receptive to the social accountability programs than was the case when these programs were first introduced in 2006. This opportunity should be fully utilized.

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[58] The Areta Water Board for example managed to extend water for 300 households at individual level on top of those who use the communal water points. This increased the accessibility of the services and improved the quality of services.

[59] The community based social accountability groups that were created at the woreda level have been given different names in different woredas and different CSO operational areas.

Annex D. List of Persons Met

World Bank

Ato Brehanu Legesse Ayane, Senior Public Sector Management Specialist, World Bank, Ethiopia
Ato Wendmsyamregne Mekasha, Sr. Social Protection Specialist, Ethiopia
Mr. Guang Zhe Chen, Country Director for Ethiopia
Mr. Ishac Diwan, former Country Director for Ethiopia
Mr. Kenichi Ohashi, former Country Director for Ethiopia
Mr. Qaiser Khan, Lead Economist, AFTHD
Mr. Rupert Blandon, Sr. Public Sector Specialist, World Bank Ethiopia
Mr. Xavier Furtado, Coordinator, AFTSE
Ms. Camilla Holmemo, Senior Economist, AFTSE
Ms. Elsa Arraya, Sr. Public Sector Management Specialist, Ethiopia

Government of Ethiopia

Ato Adamu Ayana, State Minister and former PSCAP head, Ministry of civil service &Good Governance
Ato Degu, Ministry of Finance
Ato Fantahun, Consultant, Macro-economic Department Head, Ministry of Finance and Development
Ato Gemachu Dubbiso , Auditor General, Ethiopia
Ato Getachew Negara, MoFED, Treasury Directorate Director
Ato Medkim Enkosa, Ethiopia Federal Government Ministry of Health (MoH)
Ato Melaku Kifle, MoFED, Channel One Coordinator
Ato Mezgebu Amaha, Micro Economic Directorate Director, MoFED
Ato Mezgebu, Ministry of Finance and Development
Ato Rahel Yirgache Darge, Planning and Resouurce Mobilization
Ato Solomon Chiferaw, Director, EMIS, Planning and Resource Mobilization Directorate
Ato. Abraham Tekeste, State Minister, Minister of Finance and Development
Mr. Rahel, Ministry of Economy
Mr. Tewodros Adhanon Ghebreyesus, Minister of Foreign Affairs (former Minister of Health)

Other Government Officials

Note: The mission met with numerous officials in Oromia Region, Southern Nations, Nationalities, and People's Region (SNNPR), and Benishangul Region at the regional and woreda levels, but a full list is not available.

Ato Berhanu Geleto, General Manager, Rift Valley Childe and Women Development Organization (RCWDO)
Ato Abeeta Lida, Shebedino Health Officer, Shebbadino Kebele
Ato Adane Utaha, Shebadino Health Center Head
Ato Ademne, former State Minister, PSCAP Counterpart
Ato Admasu Yimer, Public Finance Management Core Process, SNNPR, BoFed

Ato Awoke Ayisheshum, Planning Deputy Head &Acting Burea Head, Benishngul-Gumuz Regional State BOFED
Ato Berihum Ijigu, Benishngul-Gumuz Regional State BOFED Finance Sector Burea Head
Ato Eduma Suyena, Public Finance Manager, SNNPR, Bureau of Finance and Economic Development (BoFed)
Ato Ferenj Shegiro, Benishngul-Gumuz Regional State BOFED, PBSI Focal Persons
Ato Getachew Disasa, Benishngul-Gumuz Regional State BOFED, Channel One Coordinator
Ato Jafar Mekeni Kelifa, Benishngul-Gumuz Region, Bambasi Woreda Health Office Head
Ato Merara Tibebu, Debirlabanos Woreda Council Speaker
Ato Neway, PMO
Ato Rekalau, Head of Planning and Budget, PBS
Ato Sagai Alemu, Sr. Accountant, PBS
Ato Shebedino W., Head of the Financial Department, PBS
Ato Tareqegni Nuramo, Channel One Program Coordinator, SNNPR, BoFED
Ato Teka Gamta, Benishngul-Gumuz Region, Bambasi Woreda, Health Center Head
Ato Tsegahe Alemu, PBS Senior Accountant, SNNPR BoFED
Ato. Bekele Yenuquena, Planning and Budget Head of WOFED, Shebbadino,
Ato. Zewudu Kebede, WOFED head, Shebadino, SNNPR

Donor Partners, Civil Society Organizations

Ato Admit Zerihun, Sr. Macroeconomist African Development Bank
Ato Ahmed Mohammed, DFID, Governance Sector
Ato Fisseha Alazar, Former Irish Aid Staff and currently a private consultant
Mr. Christopher Berry, Senior Education Adviser, DFID
Mr. Dennis Weller, USAID Head
Mr. Gebrekidan Mesfin, WHO
Mr. Meshesha Shwarega, Managing Director, Christian Relief and Development Association (CRDA)
Mr. Mulutega Gebru, Executive Director, Jerusalem Children and Community Development Organization (JeCCDO)
Mr. Paul Walters, Deputy Head, DfID
Mr. Peter Hawkins, Head of Human Development Team, Ethiopia
Mr. Tesafayu Yihuna, Jerusalem Children and Community Development Organization (JeCCDO)
Mrs. Benedetta Musillo, Economic Attaché, Economic and Social Development, Trade and Regional Integration, European Union
Ms. Betafel Kefedu, Jerusalem Children and Community Development Organization (JeCCDO)
Ms. Betalihem Befekadu, Jerusalem Children and Community Development Organization (JeCCDO)

Key Informant Interviews or Participants in Focus Group Discussions on Social Accountability

No	Name	Woreda	Position
1	Ato Yeshiwas Solomon	Bahir Dar Town	SAC chairman
2	W/r Manalebign Mulatu	Bahir Dar Town	SAC Member
3	Ato Solomon Nigatu	Bahir Dar Town	Teacher, SAC member
4	Zelaem Mihirate	Bahir Dar Town	Teacher, SAC Members
5	Ato Managegnew Wole	Bahir Dar Town	Pensioned, SAC members
6	Ato Wondu Zegayye	Bhiar Dar	Head of Master, SAC Member
7	Ato Mulualem Abe	Bahir Dar	Education Office Curriculum Development Head
8	Ato Idagilign Fanta	Bahir Dar	Office Head, Jerusalem Children & Community Dev't Organization, Bahir Dar
9	W/r Innat Belay	Bahir Dar	Service User, at Schools
10	Paulos Mekonnes	Bahir Dar	School Master, Sertse Dengel School
11	Ato Alleneh Birhanu	Bahir Dar	School Master, Yeiwket Fana School
12	Ato Yabibal Addis	Bahir Dar	Amhara Regional State Deputy Bureau Head
13	Ato Solomon Kassa	Bahir Dar	ARSFEDB[60], Planning Process owner
14	Ato Yeqoyye Worqineh	Bhair DaR	ARSFEDB, Procurement, Finance and Property Management Process Owner
15	Obbo Mekonnen Teferaa	Ziway Dudgda Woreda	Z Dugda Woreda Water Desk/Office
16	Obbo Jamal Badhaso	Ziway Dudgda Woreda	Z Dugda Woreda Water Desk/Office
17	Obbo Muhammed Obsa	Ziway Dudgda Woreda	Z.Dugda Woreda Council Office
18	Obbo Muhammed Saddao	Ziway Dudgda Woreda	Water Bard, member
19	Obbo Baricha Haji Muhmmed	Ziway Dudgda Woreda	Water Bard, member
20	Obbo Sammu Ragasa	Ziway Dudgda Woreda	Water Bard, chairman
21	Obbo Hassen Godana	Ziway Dudgda Woreda	Water Board, member
22	Obbo Dhabsu Sima	Ziway Dudgda Woreda	Water Board, Member
23	A/e Gennet Ashenafi	Ziway Dugda	Ziway Dugda, Council deputy speaker

[60] Amhara Regional State, Finance and Economic Development

No	Name	Woreda	Position
24	Obbo Abu Baker Chiro	Ziway Dugda	WUC, head
25	Ato Wondimeneh Mekesha	Addis Ababa	World Bank, Country Office, Ethiopia
26	Ato Mesfin Temesgen	Addis Ababa	World Bank, Country Office, Ethiopia
27	Ato Tesfaye A	Addis Ababa	JeCCDO
28	Obbo Birhanu Gelato	Addis Ababa	RWCDA
29	Obbo Amintu	Ziway Dugda	RWCDA Office
30	Tesfaye Zeleke	Wolmera	Participants of PBET

Annex E. Borrower's Comments

Comments on "Project Performance Assessment Report" Ethiopia Protections of Basic Services Project (IDA H2240-ET, IDA H3470-ET) document

General Comments:

1. This assessment is supposed to be for PBS I and as such since PBS I is completed in 2009, the assessment cannot be used as a learning for the next design. The report also tries to talk about periods extending up to 2012/13. PBS II is completed and PBS III has passed its design stage and is on the stage of implementation. What is the value added of this assessment? Performance assessment should be conducted in time so that the next design should benefit from the assessment.

2. PBS was new aid modality when it was introduced and the first design and implementation may face design and implementation problems. You improve through learning and this has also been proved while designing and implementing PBSII and PBSIII. The document should mention this fact since some of the under-implementations are the result of this situation.

3. It is not appropriate to put sweeping statements under the pretext of 'one observer' as is stated under footnote 3 of paragraph 1.1 (page 1). An independent evaluation report such as this one will lack credibility if it bases it findings and recommendations on observer accounts especially on issues of political sensitivity since people are naturally inclined to have differing political opinions. The report writers should also know that depending who is being questioned as "the view of one observer" extremely contrasting views could have been obtained as response for similar questions.

4. Box 2: It is better to remove Box 2 (page 3) completely. The statements by the stated 'political economist' and 'Bank manager' are so biased against the government of Ethiopia, that they could not be considered as representatives of opinions and views of people situated in similar positions at the time.

5. The content of paragraph 3.7 (page 13) is completely incorrect. It is very unprofessional of the report writers to include a sentence in the report which says " ...the Ethiopian parliament passed the Charities and Societies Proclamation, which is aimed at international CSOs, such as the Human Rights Watch...". The purpose of having the proclamation could have been cited from the preamble of the proclamation itself instead of trying to draw inferences from parties which have to fabricate motivations regarding what they think is the rational for having the proclamation in the first place. The preamble of the proclamation states that "...it is found essential to promulgate a law to aid and facilitate the role of Charities and Societies in the overall development of Ethiopian peoples...".

Specific Comments

1. Page ix summary, 2nd paragraph, line 7

   "Considerable bloodshed…". This phrase is very strong.

2. Page x, summary, 4th paragraph, last sentence

   "…….foot-dragging on the part of the government"
   Is the delay because of foot-dragging? There was absence of clarity regarding what social accountability means on both government and donors' side and this has taken time.

3. Page xi, summary, on top of the page last sentences

   Which reads "Finally the evaluation……continuing ethnic and regional tensions'. Was there an ethnic and Regional tension during 2006 and 2007?

4. Page 1, Background & context, 1st paragraph

   The paragraph as a whole seems very biased. For instance when it starts it says "……the Meles Government..." instead of saying the Ethiopian Government.

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5. Page 4, 2nd paragraph, line 11

   "There was resistance from the Gov't to this……." Is there any proof that substantiates this statement? For instance, a written letter from the government which states that they are not accepting social accountability.

6. Page 8, 2nd paragraph, line 10

   " ….were looked at with suspicion by the Government" This also needs a sort of proof to put in a document.

7. Page 7, 1st paragraph, line 11

   "The decision not to proceed ……is seen by evaluation as particularly unfortunate".
   The decision is made by an agreement made between donors and Government since there is an MDG fund to cover capital expenditure. The government has started to invest a lot of money in capital expenditure for the last 2-3 years. It was thought that it is not necessary to invest in parallel.

8. Page 11, Table 1

The table should only put the timeline of events for PBS program. The 1st and 2nd row are not necessary.

9. Page 27, Box 7

It is not fair to put a bank staff (an individual) perspective in this document.

10. Page 30. Risk to development outcome, paragraph 6.4

The paragraph stated that the risk to the development outcome is rated as significant and the reason is fiscal sustainability. PBS donor financing is 30-35% of basic services (education, Health, water, agriculture and rural roads) for salary. The other is covered by the government. The government is also preparing annually macro-economic & fiscal framework which shows revenue & expenditure forecast for the coming years. Therefore, it is very difficult to rate it as significant from the above situation.

11. Page 30, Paragraph 6.6.

First of all, the presence of LIG does not ensure the sustainability of the project or the program i.e. PBS. The last sentence which questions the government commitment to decentralization is totally wrong. This is confirmed in the Constitution.

12. Page 31, paragraph 6.8

The political risk in Ethiopia is not high as claimed by the report. The paragraph seems to be one sided and biased. What are the indicators to put a country as politically risky?

13. Annex D, List of People Met

I would suggest that the names of people met be written according to their portfolio and also with their exact position and title including full name for some.