**Project Name**: Ethiopia Promoting Basic Services Program Phase III Project (P128891)

**Region**: AFRICA

**Country**: Ethiopia

**Sector(s)**: Primary education (53%), General agriculture, fishing and forestry sector (21%), Health (15%), General water, sanitation and flood protection sector (6%), General transportation sector (5%)

**Lending Instrument**: Sector Investment and Maintenance Loan

**Project ID**: P128891

**Borrower(s)**: Government of the Federal Democratic Republic of Ethiopia

**Implementing Agency**: C-Not Required

**Date PID Prepared**: 05-Jul-2012

**Estimated Date of Appraisal Completion**: 09-Jul-2012

**Estimated Date of Board Approval**: 27-Sep-2012

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## I. Project Context

### Country Context

Ethiopia has achieved impressive development results in recent years. That progress is evidenced through rapid and significant improvements in basic service delivery indicators: an ODI study noted that Ethiopia is making the third fastest improvements of any country towards reaching the Millennium Development Goals. For example, the latest Ethiopia Demographic and Health Survey data show that child mortality has fallen from 123 per thousand in 2005 to 88 in 2010, and primary net enrollment rates rose from 68 percent in 2004/2005 to 82 percent in 2009/2010. This progress on basic service delivery is coupled and reinforced by an impressive growth record over the past 10 years. GDP grew on average 11 percent per annum during 2004/5-2009/10, according to official estimates. Initially led by agriculture, growth has become more broad-based, with a rising contribution from the mining, services and manufacturing sectors. Together, a sharp focus on equitable, decentralized basic service delivery and rapid growth have led to overall improvements in welfare: based on official data, the population below the poverty line fell from 33.8 percent in 2007 to 27.7 percent in 2011.

These MDG, growth and poverty results spring from a long-term, concerted Government commitment to pro-poor development. Building on the Sustainable Development and Poverty Reduction Program 2002-2004/5 and A Plan For Accelerated and Sustained Development to End Poverty 2005-2010 (PASDEP), the Government’s current development plan, the Growth and Transformation Plan (GTP), aims to achieve the Millennium Development Goals by 2015 and middle-income status for Ethiopia by 2020-2023. The plan reaffirms the Government’s commitment towards human development, including expanding access to and ensuring the quality of basic services. The GTP’s objectives are to (a) attain high growth within a stable macroeconomic framework; (b) achieve the MDGs in the social sectors; and (c) establish a stable democratic and developmental state. To accomplish these objectives, the GTP identifies the following strategic pillars: (i) sustained rapid growth; (ii) agriculture; (iii) industrialization; (iv) infrastructure investments; (v) enhanced social development; (vi) strengthened governance; and (vii) empowerment of youth and women.

### Sectoral and Institutional Context

The Government of Ethiopia promotes the GTP’s basic service goals of reaching MDG targets by seeking to provide stronger decentralized services. The Government and PBS DPs consider health, education, water and sanitation, agriculture and natural resources and rural roads to be the basic services sectors that are most essential to serving poor people. Accordingly, the GTP seeks to increase resources to woreda (district) authorities so that they can improve these basic services. Each of the basic service sectors has adopted tailored approaches to improve local service access and quality. To support these interlinked sectoral goals, each of which rely on local service providers, the Government has established and developed a decentralized system of economic governance. That system supports information, resource and accountability flows between different levels of government and between service providers and citizens. Centered on woredas, this decentralized economic governance system provides the essential platform for improved service delivery necessary to reach MDG and GTP targets. The Constitution and legal framework commit the Government to maintain the integrity and capacity of deconcentrated administration down to woredas. Within Ethiopia’s federal administrative structure, the Federal Government provides un-earmarked block-grant financing through regional governments. These in turn provide block grants to woreda administrations, so that these local governments deliver decentralized services with predictable financing. This administrative and financial structure has supported a steady and impressive increase in basic services throughout the country.

Despite successes to date in local service provision, there are constraints in implementing Ethiopia’s approach that may give woredas less budgetary discretion than their decentralization plans envisioned for them. Because of these staffing obligations, limited capacity of woreda offices in planning and budgeting, and budget constraints, woreda officials may in practice have limited discretion over block grant resources. For example, while woredas have access to un-earmarked resources through block grants, 85 percent of those resources finance recurrent expenditures, 80 percent are used to meet salary obligations. Woreda health, agriculture, and education offices are mandated to hire a certain number of primary service providers, e.g. a certain number per kebele or school age children. Further, capital resources available to woredas are earmarked for specific sectoral expenditures, often times through DP sectoral programs (i.e., specific purpose grants) or from capital allocations that regional governments administer. For the capital-intensive basic services (e.g., roads and to a lesser extent water), many key...
sectoral investment decisions and management of those investments take place primarily at the regional level. Finally, there is limited opportunity for woredas to retain their own resources to augment block grants and generate greater fiscal autonomy.

Recognizing this lack of capital expenditure for woreda level services, the Government has since EFY04 put in place an “MDG fund” to support essential local level infrastructure investments, primarily rural roads and water. In its first year, the MDG fund was allocated ETB 15 billion (approximately USD900 million). The Government has allocated ETB 20 billion for EFY05, ETB 22 billion for EFY06, and significant planned increases beyond that, e.g., ETB 5 billion additional per year. Due to large procurement and contract management needs for which most woredas do not have capacity, the MDG fund is managed at the regional level. While this fund provides capital resources for woreda investments, in practice woredas do not have discretion over how those resources are allocated across sectors.

Given its firm commitment to decentralization and sustaining adequate resources for local service provision, the Government recognizes these challenges of woreda resource flows, administrative autonomy, and sustainable service provision. As part of its contribution to appraising Phase 3 support for the Promoting Basic Services program, it will provide to PBS DPs a “Policy Letter on Decentralization and Sustainability”, outlining its long-term strategy to help continue to build woreda capacity and allow local governments to deliver on their mandate of providing sustainable, quality basic services.

While Ethiopia’s federal system is complex, allowing strategies, resources, and information to flow between ten regional/urban governments and then to more than 1000 woreda administrations, its fiduciary and economic governance system is robust. Overall, the Public Expenditure and Financial Accountability ratings for Ethiopia place it in the top tier of countries in Sub-Saharan Africa. While strong in design, execution of that woreda-level economic governance system needs to be made more resilient, particularly in some jurisdictions. PBS 3 will continue to support the Government in strengthening its woreda-level governance system, public financial management, and transparency and accountability.

With local woreda administrations as the front line, the GTP continues to make social service delivery a top priority. Over the period since the launch of the PBS program, expansion of access to basic amenities and social services has been significant. The Government has focused resources on the basic services woredas provide. However, across woredas and basic service sectors, there are significant challenges to maintain equitable quality of services and to continue to strengthen woreda-level fiduciary, administrative, and information governance.

Education. Within the GTP and with IDA support, the Government has promoted an Education Sector Development Plan to reach the education-related MDGs. Primary school (grade 1-8) net enrollment rose from 68.5 percent in 2004/5 to 85.3 percent in 2010/11; and the primary school completion rate at grade 8 increased from 34 percent to 49.4 percent during this period. Besides enrollment expansion, indicators of education quality also show progress: student-teacher ratio fell from 66:1 in 2004/05 to 51:1 in 2010/11 for primary education, and the ratio for secondary education fell from 51:1 to 33:1. As noted in the 2011 Welfare Monitoring Survey (WMS), literacy rates have risen since 2004 from 37.9 percent to 46.8 percent. Since its inception in 2006, the PBS program has contributed to the basic financing necessary to complement education specific programs, primarily the General Education Quality Improvement Program (GEQIP), by allowing woredas to hire more than 100,000 additional primary school teachers.

Despite this progress, significant efforts continue to be needed for the government to reach the MDG goal of universal primary education. Progress on education access has slowed. For example, when primary education is separated into grades 1-4 and grades 5-8, the upper primary net enrollment rates are quite low, 47.3 percent in 2010/2011, and at a trajectory that will not achieve universal primary education by 2015. As a complement to the GEQIP support, PBS will seek to improve opportunities for stakeholder feedback in primary education, improve the budgets available for non-salary recurrent expenditure that can be used to purchase educational materials, and will enhance local capacity for long-term, sustainable revenue planning and use.

Health. In line with the GTP and Health Sector Development Plans, the Government has been making strong efforts to provide health services for local communities, achieving impressive results in service expansion. Between 2005 and 2010, the number of health posts rose from 4211 to 14,416; the number of health centers increased from 519 to 2,689; and public hospitals rose from 79 to 111. As a result of these expanded health facilities, Ethiopia has shown impressive improvements in key maternal and child health indicators between 2005 and 2010, measured primarily through the Ethiopia Demographic and Health Survey (EDHS). Contraceptive prevalence increased to 29 percent from 15 percent and coverage of at least one antenatal visit reached 34 percent from a baseline of 28 percent. Remarkable improvements have been achieved in the under-5 mortality rate, with the rate declining from 123 (per 1000 live births) in 2005 to 88 per 1000 live births in 2010. Infant mortality dropped from 77 to 59. According to the Welfare Monitoring Survey, the prevalence of illness from 23.8 percent (2004) to 16.9 percent (2011). The PBS program contributed to these health sector improvements by allowing more than 38,000 health extension workers to be hired, two for every kebele in the country.

Nonetheless, the country still faces significant health challenges, particularly in maternal mortality, which remains at 676 per 100,000 live births, roughly equivalent to where it was in 2005 (EDHS). Skilled attendants at delivery remains very low, although it has improved to 10 percent in 2011 from 6 percent in 2005 (EDHS). The key challenges for the health sector are to address stubbornly high maternal mortality and sustain the gains made in reduction of child mortality, improved nutrition of children and decreased burden of communicable diseases. This requires strong, well-coordinated inter-sectoral action led by woredas to promote community-based integrated service delivery through the successful health extension worker program. Given this multi-sectorality, the woreda plays a crucial role as a platform for ensuring that all basic service sectors work well together to achieve MDG and GTP results.

Agriculture and Natural Resources. The GTP continues the Government’s long-standing focus on agriculture and smallholder farming. The sector remains crucially important for the economy, especially employment, poverty reduction and food security and will be central to implementing the country’s ambitious plans for a Climate Resilient Green Economy (CRGE). The GTP aims to maintain the improvements in agricultural productivity of the last years: average yield per hectare rose to 17.6 quintals in 2011 from 15.0 in 2007. Complementing other efforts to support agricultural productivity, the PBS program has supported the agriculture sector by facilitating hiring of more than 45,000 agricultural extension workers, animal health professionals and cooperative promoters at the woreda and kebele levels.

The capacity of the public sector to play an appropriate role in agriculture service delivery and investment in rural infrastructure needs continued strengthening. Agricultural research and extension services, including for improved agronomy, animal health, breeding, soil fertility, sustainable management of natural resources and cooperative development are a central feature of woreda-level agricultural services. A large, trained cadre of nationally deployed agricultural workers is a valuable potential asset to help deliver results in agricultural productivity. To achieve those results,
it is also important to ensure that these front line agricultural workers are consistently providing high-quality services tailored to the communities they serve. Other valuable contributions of the public sector to agriculture are to ensure food security and manage disaster risks; environmental services including related to land management, watershed and forestry development; and services related to irrigation and other rural infrastructure. The policy environment and strategic vision for sectoral performance must evolve and adapt to changing circumstances. To that end, there is a need to monitor effectiveness closely and understand changing sectoral needs. Currently, while policy development is a federal function in Ethiopia, data on agricultural service delivery is not often smoothly and accurately transmitted to federal decision makers. Though the Government is taking efforts to improve agriculture data quality, there are still significant efforts needed to strengthen monitoring and evaluation in the sector.

Water and Sanitation. There has likewise been progress on water and sanitation services. For example, by 2010, the proportion of the rural population with access to potable water rose to 65.8 percent, from 46 percent in 2006. The GTP aims to achieve universal access to water supply at the end of its implementation period in 2015. As a complement to sector specific operations, the PBS program has supported an increase in the number of woreda-level water supply, sanitation and hygiene (WASH) staff to oversee local access and quality of water supply. Further, health extension workers have supported WASH goals, including household access to latrines, so there are now more “open defecation free” communities.

While it is useful to ensure trained local staff are available to support the water sector, including to facilitate effective water users committees, enhanced results require these staff to be used effectively and to access complementary capital inputs. Ground water is the source for most of the rural water supply which, when combined with the government's plan for multiple use of this source including for small scale irrigation, will demand an improvement in planning, investigation, choice of appropriate technology, and capacity to implement and sustain the schemes functionality. The slow pace of implementing the integration between water supply and sanitation institutions is due among others to capacity limitation at local levels. Lack of a well developed M&E system is also a constraint for acquiring reliable sector data for planning and effective monitoring. Continuation of the assistance provided to the establishment and rolling out of M&E-MIS for the WASH sector is essential.

Roads. As for the other basic service sectors, in its GTP and Road Sector Development Plan Phase 4, the Government makes a strong commitment to improving access to rural roads, along with improvement and maintenance of the main and rural road networks. The average distance to an all-weather road decreased to 3.5 hours in 2011 from 4.5 hours in 2007. The Government’s plan provides an opportunity to transform the road sector by significantly increasing rural accessibility and improving the condition and standard of Ethiopia’s road network.

GoE is embarking on a Universal Rural Road Access Program (URRAP), an ambitious program that aims to connect all kebeles by all-weather roads, providing year-round access to meet the needs of rural communities. For this ambitious roads sector plan to provide sustained rural transport services, it will need to include a financing and administrative plan to maintain the rural roads constructed under the program. Sustainability of the rural roads network will require increases in skilled roads sector personnel to staff both the roads desks and to facilitate the private sector to provide design, construction and maintenance services. These roles will require sustainable woreda-level resources for maintenance and upkeep, as well as improved woreda capacity to plan and manage contracts for roads maintenance. Additionally, woredas will increasingly need to provide cost-efficient and safe designs and introduce measures to ensure that rural road construction and maintenance considers environmental and safety issues. To date, through support for local staff costs, the PBS program has supported the establishment of 500 woreda roads desks that provides a platform for these improved rural transport services. It remains unclear whether rural roads desk staff are sufficiently well-trained to facilitate the efficient and effective use of MDG Fund resources to achieve rural transport results.

Overall, across the basic service sectors, there has been important progress in Ethiopia over the period of the PBS program’s first two phases. Given its extensive support for recurrent block grant resources, the program has encouraged significant and valuable increases in nationwide, decentralized human resources, i.e., primary teachers to allow increases in access to schools, health and agriculture extension workers to convey essential service delivery messages, water staff to coordinate community water users groups, and recently, roads desk officers to facilitate efforts to improve rural roads. However, after fast initial success in increasing service access, improvements in service quality are likely to be more difficult to achieve. While there are dedicated sectoral programs to support continued improvements in access and quality, PBS and other complementary cross-sectoral efforts aim to strengthen woreda-level capacity and address constraints in these crucial local platforms for service delivery. These efforts to strengthen local governance systems involve improvements to accountability and fiduciary systems, access to and quality of data, and efforts to enhance staff skills and longevity.

The Government has demonstrated its commitment to decentralized basic service delivery by hiring primary level staff nationwide that can provide citizens access to services and who can provide essential inputs to service quality. The on-going challenge will be to ensure that resources are available to retain these staff and to ensure that they are progressively better trained and more effective. To sustain the gains the Government has made, it needs to identify how to provide a long-term stream of sufficient woreda financing. To augment the effectiveness of these staff, particularly to increase the quality of services, it will require that woreda budgets are sufficient to provide these front line staff with reliable complementary inputs. Further, while capital resources are available for basic services, they are provided either through DP supported sectoral programs (e.g., GEQIP, WASH, AGP) or through Government-financed programs administered at regional level on behalf of woredas (e.g., MDG fund). For a full commitment to decentralized service provision, the Government needs to outline its vision for building capacity and providing resources for woredas to manage capital investments further improving the quality of basic service delivery in a sustained manner.

III. Project Development Objectives

PBS 3 will contribute to the higher-level objective of expanding access and improving the quality of basic services by funding block grants that ensure adequate staffing and operations, and by strengthening the capacity, transparency, accountability and financial management of local governments. The program defines basic services as education, health, agriculture, water supply and sanitation and rural roads.

IV. Project Description

Component Name
Basic Service Block Grants (Sub-program A )
Citizens’ Engagement (B1)
Local Public Financial Management (B2)
Managing for Results (B3)
V. Financing (in USD Million)

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VI. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance and Economic Development is the Implementing Agency for the PBS program, given its overall responsibility for supporting financial flows from the federal to more decentralized levels and for ensuring that public financial management systems work smoothly. Within MOFED, the Channel One Programs Coordinating Unit (COPCU) is responsible for coordinating daily PBS activities across the basic service ministries and sub-national government entities and for ensuring compliance with joint legal agreements. During PBS Phase 2, MOFED restructured COPCU to make it more effective in program implementation, assigning a Deputy Coordinator, bringing in additional accountants to facilitate financial reports and hiring in each region staff that report to COPCU, improving the communication between federal and regional levels. Finally, COPCU has hired dedicated staff working on PBS procurement, safeguards and social accountability. Improvements in COPCU staffing and management have demonstrated Government’s willingness to tackle implementation challenges.

PBS Secretariat. To facilitate and coordinate the dialogue on and implementation of the PBS program, donors established the PBS Secretariat in 2006, at the outset of PBS Phase 1. Its role was further elaborated and formalized with the approval of PBS Phase II in 2009. The Secretariat is housed at the Ethiopia World Bank Country Office; its staff costs and activities are supported through donor contributions to a Multi-Donor Trust Fund.

VII. Safeguard Policies (including public consultation)

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VIII. Contact point

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