

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

FIRST PROGRESS REPORT

**ON THE IMPLEMENTATION OF MANAGEMENT'S ACTION PLAN IN RESPONSE TO
THE INSPECTION PANEL INVESTIGATION REPORT (REPORT NO. 9184-ET) ON THE**

**ETHIOPIA
PROMOTING BASIC SERVICES PROJECT (CREDIT NO 51620)**

FEBRUARY 11, 2016

Acronyms and Abbreviations

CDP	Commune Development Program
DA	Development Agent
DLI	Disbursement Linked Indicators
EFY	Ethiopian Fiscal Year (follows Julian Calendar)
EIO	Ethiopian Institution of the Ombudsman
ESPES	Enhancing Shared Prosperity through Equitable Services Program for Results
FM	Financial Management
GRM	Grievance Redress Mechanism
IBEX	Integrated Budget and Expenditure
JRIS	Joint Review of Implementation Status
MAP	Management Action Plan
OFAG	Office of the Federal Auditor General of Ethiopia
PBS 3	Promoting Basic Services Project Phase III
PFM	Public Financial Management
PforR	Program for Results

Ethiopia
Promoting Basic Services
(Credit No 51620)
Progress Report No.1
Implementation of Management Action Plan

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EXECUTIVE SUMMARY

- i. This is the first report to the Board on the implementation of the Management Action Plan (MAP) for the Ethiopia Promoting Basic Services Project Phase III (PBS 3).
- ii. The Ethiopia PBS project, which operates nationwide, supports expanded access to, and improved quality of, basic services such as education and health. It does so by supporting direct grants to local authorities that ensure adequate staffing and operations for such basic services, and by strengthening local capacity, transparency, accountability and financial management systems. PBS 3 also includes components that develop local capacity for citizens' engagement – through financial transparency and accountability, a social accountability program, and grievance redress mechanisms that are critical to success. The project has been instrumental in Ethiopia's process of poverty reduction, economic growth, and greater voice for citizens, through the delivery of quality basic services and improved accountability at the grassroots level.
- iii. Since the conclusion of the Inspection Panel investigation in February 2015, a Management Action Plan (MAP) has been put in place to address the main areas of concern in the Panel's Report. While the Panel concluded that Bank support to the project had not caused harm, suggestions were made to enhance supervision going forward. The key commitments relating to PBS 3 made by Bank Management and agreed with the Board and Panel were:
 - Improving risk assessment during implementation, through strengthening environmental and social safeguards, access to grievance redress, increasing opportunities for citizens' engagement and promoting quality results and data;
 - Improving financial management and analysis by strengthening public financial management and ongoing reform efforts;
 - Addressing linkages between PBS and Ethiopia's Commune Development Program (CDP), by strengthening environmental and social safeguard capacities, including training to apply the Screening Tool to reduce the risk of interface with CDP;
 - Promoting agriculture and livelihoods (in combination with ongoing portfolio level activities), through financing of block grants, support of analytical activities and data quality, plus broader collaborative support with other Bank programs; and
 - Addressing livelihoods in Gambella and other Developing Regional States.
- iv. The implementation of the MAP is proceeding well. Nine of the fifteen actions have been completed. The remaining six are due to be completed before the end of calendar year 2016. Funds were reallocated from the block grant component (Sub Program A) to the capacity building efforts (Sub Program B) to allow the project to address critical needs related to oversight and transparency, and enhancing citizen engagement, safeguards, and fiduciary capacity at the local level. For example, the Finance Ministry issued a directive in September 2015 to require all districts (woredas) to carry out citizen consultations before budgets are approved. Evidence indicates that woredas are implementing this directive. Also, a safeguard specialist has been recruited in the PBS Secretariat, with the mandate to lead on woreda-level safeguards capacity.

- v. Key actions to reduce systematic environmental and social risks have been completed, including approval by the Government of Ethiopia of a screening tool to reduce the risk from the interface between PBS 3 and the CDP; undertaking citizen engagement actions; and reducing audit lags.
- vi. Two of the remaining actions in the MAP are supported by projects recently approved or about to be approved. Some of the actions have been incorporated as Disbursement Linked Indicators (DLIs) under the Enhancing Shared Prosperity through Equitable Services Program-for-Results approved by the Board on September 15, 2015.
- vii. The next progress report is due in February 2017, but could be submitted earlier if all MAP actions have been completed. While the Action Plan is on track, the continuing impact of the civil war in South Sudan and the resulting refugee influx in the Gambella region of Ethiopia warrant a mention, as these could pose a slight risk of delay to certain components of the MAP.

I. INTRODUCTION

1. *The Project:* The Promoting Basic Services Project Phase III (PBS 3), which operates nationwide, was approved by the Board in September 2012, and is the third in a series of projects supporting the improved quality and delivery of decentralized services in education, health, agriculture, water supply and rural roads in Ethiopia. The project also supported strengthening of fiduciary systems, citizen engagement and improving development data to allow results to be monitored.

2. There is clear evidence that District-level spending is effective in improving basic service delivery, especially for health and education. The PBS, in particular, has helped to make spending more effective and has resulted in impressive development achievements. Since 2006, the PBS program has supported decentralized delivery of health, education, water and sanitation, agriculture, and (since 2009) rural roads. The PBS has played an important role in helping achieve several of the Millennium Development Goals (MDGs) for more than 80 million Ethiopians across the country. For example, the PBS program has supported hiring of 100,000 primary school teachers and 35,000 primary health workers. Based on the decentralized service delivery approach, the mortality rate for children under age 5 has fallen from 123 per thousand in 2005 to 88 in 2010; and there have been significant increases in net and gross primary education. Moreover, the PBS citizens' engagement component – including social accountability and financial transparency – has increased opportunities for constructive collaboration between citizens and the state to improve basic public services (see Table 1 below).

3. *Current Status of the Project:* Joint donor and Government supervision missions in April and November 2015 concluded that PBS 3 has maintained satisfactory implementation progress.¹ In July 2015, the project was restructured in order to reallocate funds under Sub Program A to Sub Program B. Sub Program B, to strengthen capacity building efforts, was reinforced including a new component for Risk and Safeguards Management capacity. Sub Program A has now fully disbursed and a new Program for Results on Enhancing Shared Prosperity through Equitable Services (ESPES), which went to the Board on September 15, 2015, has been put in place. The choice of the PforR instrument allows the program to address critical institutional capacity-building needs, as identified in the Inspection Panel report, through the disbursement linked indicators (DLIs) in the ESPES. Nine of the thirteen ESPES DLIs promote institutional changes to enhance citizen engagement, safeguards and fiduciary capacity at the local level.

¹ PBS 3 comprised two subprograms as follows. **Sub Program A - Basic Service Block Grants:** This financed recurrent expenditures (salaries, operations, and maintenance) in the five basic service sectors (education, health, agriculture, water and sanitation, and rural roads) at the local levels. The basic service block grants were disbursed from the federal level to the regions and from the regions to the *woredas*. They were discretionary at the subnational level, that is, each *woreda* decided the allocation of the grants to the five basic service sectors based on the needs in their *woreda*. **Sub Program B - Strengthening Local Accountability and Transparency Systems (US\$114.6 million):** While the country's decentralized, integrated system of fiduciary, administrative, and information governance is robust, the Government and Development Partners recognize that the system can and should continue to be strengthened, particularly in its implementation in the large number of very diverse *woreda* administrations throughout Ethiopia. Sub Program B seeks to maintain and strengthen these systems, with a strategic focus on the *woreda* level as the front line of administration with responsibility for the PBS objectives. The subprogram includes three interrelated components: (B1) citizen engagement; (B2) local PFM; and (B3) managing for results (M4R).

Table 1: Evolution of Key Service Delivery Indicators and Results During PBS Period 2006-2014²			
<i>Indicator</i>	<i>Start of PBS 2006</i>	<i>2014</i>	<i>Source</i>
Child Mortality per 1000	72	31	DHS
Contraceptive Acceptance Rate Modern Method	14%	40%	DHS
Access to Antenatal Care	28%	41%	DHS
Immunization (DPT3)	72.6%	91.1%	HMIS
Net Enrolment Rate Grade 1-8	77.5%	90%	EMIS
Gross Gender Parity Index Grade 1-8	0.84	0.92	EMIS
Improved Access to Latrine	38%	66%	DHS
People with Access to Agriculture Extension Services	4.04 mill	13.09 mill	Administrative data from MoA
Cereal Productivity in Quintals per Hectare	15	20	Agriculture Sample Surveys
Access to Improved Rural Water Supply	46%	75.5%	Ministry of Water and Energy
Percent of Kebeles Connected to All Weather Roads	20%	64%	Administrative data
Legend: DHS is Demographic and Health Surveys; HMIS is Health Management and Information System; MoA is Ministry of Agriculture			

Note: PBS financed district (woreda)³ block grants were used to finance health extension workers, teachers, agriculture extension workers, water supply and sanitation officers and road maintenance staff at woreda level. The PSIA findings show that this has a direct impact on most of the above indicators.

4. The PforR replaces Bank support to Sub Program A of the PBS, which financed woreda block grants at the Inter-Governmental Fiscal Transfers system level. It also includes policy and regulatory changes designed to integrate citizen engagement, safeguards and fiduciary improvements supported by PBS Program B into day-to-day governance at the local level.

5. Specific lessons learned from the PBS series are outlined in Section II. The ESPES program design is also strongly influenced by the findings of the Inspection Panel which led to the incorporation of the following issues:

- A sustained focus on deepening citizen engagement as reflected in social accountability, grievance redress mechanism (GRM), and financial transparency and accountability activities.
- A dedicated program of support for environmental and social safeguards management to strengthen risk assessment from the ground up.
- The continued strengthening of fiduciary aspects in basic service delivery, including a focus on enhanced public financial management (PFM) capacity and performance assessment, coupled with deepened financial oversight, procurement, and control mechanisms.

² These results parallel the PBS period and can be attributed to decentralized funding at woreda level, which PBS has co-financed from the beginning. The book, *Improving Services for the Bottom Forty Percent: Lessons from Ethiopia* (World Bank, 2014) documents the link. The results cannot solely be attributed to the PBS which financed staff; inputs from other sector spending (such as other Bank supported projects) also played a role.

³ Ethiopia's federal system consists of 11 regions and over a thousand woredas. Woredas are responsible for delivery of basic services in health, education, agriculture, water supply and rural roads.

6. *Summary of Panel Process, Panel Findings and Board Consideration:* In July 2013, the Bank's Board authorized an Inspection Panel investigation following claims made by Anuak community members that the Bank's support to PBS 3 was linked to human rights abuses that allegedly occurred under the Government's Commune Development Program (CDP) in Gambella. The Panel's Investigation Report, dated November 21, 2014, concluded that the alleged harm which the Panel had investigated did not stem from PBS 3. However, the Panel found that there was an operational interface, due to geographical and sectoral overlap, between the PBS and CDP, which the PBS 3 risk assessments did not adequately take into account. In the Panel's view, PBS 3 could have acted to mitigate adverse developments associated with the CDP, specifically those stemming from the relocation of around 75 percent of the Gambella population. Furthermore, the Panel found weaknesses in the financial management (FM) system of PBS 3.

7. Management's Response to the Inspection Panel Report, dated January 31, 2015, reiterated the development achievements that PBS 3 made possible. Recognizing the concerns regarding the impact of CDP in Gambella and weaknesses in program appraisal and supervision found by the Panel, the Response included a comprehensive Management Action Plan (MAP) defined below. On February 27, 2015, the Board of Executive Directors approved the MAP.

II. PROGRESS OF MANAGEMENT ACTION PLAN IMPLEMENTATION

8. *Progress During Current Reporting Period.* Nine of the fifteen actions have been completed and the rest are ongoing. All of the actions are summarized in Table 2.

9. Key actions to reduce systematic environmental and social risks have been completed. These include approval by the Government of a screening tool to reduce the risk from the interface of Bank projects and the community development program (CDP), which had led to the complaint. Citizen engagement actions have been undertaken, including citizen feedback on budget decisions. The audit lag in Gambella has been reduced to one year.

10. *Summary of Outstanding Issues and When They Will Be Addressed.* The outstanding action to reduce systematic social and environment risks (Action #3) is to build capacity of woreda-level staff to implement Bank safeguard policies through development of a woreda-level safeguard manual. This will be completed by May 2016, as a DLI under the ongoing ESPES.

11. Significant progress has been made in Action #5 to improve the link between social accountability and financial transparency, with many regional finance bureaus seeking technical support from the local civil society organizations implementing the Ethiopia Social Accountability Program, in order to conduct citizen consultations effectively. Action #8 regarding training of grievance redress officers in districts is ongoing, with 222 officers already trained and another 400 to be trained this year. Work plans are being developed by the regional ombudsman offices to assure that all districts have trained GRM staff by 2017.

12. With regard to improving agriculture and livelihoods in Gambella (Action #9), this action was partially completed with the Board Approval of the Second Agriculture Growth Project, and will be completed with the expected approval on May 31, 2016 of the regional project, Development Responses to Displacement Impact in the Horn of Africa, which will support livelihoods and community driven development in Gambella, among other areas subject to being screened for interface with the CDP.

13. The two ongoing actions under reducing systematic risks relating to financial management are progressing well. Action #10 to strengthen financial management by rolling out IBEX⁴ to all woredas continues, with the allocation of approximately US\$20 million towards improved financial management in all districts and regions under PBS 3. Action #11 to supplement financial management system strengthening through a stand-alone PFM project is almost complete, with the preparation of the Ethiopia Public Financial Management Project, which has been submitted for Board approval on February 25, 2016. This is later than anticipated due in large part to the national elections and subsequent government reshuffling.

14. *Matrix on Overall MAP Implementation Process:* Table 2 shows the status of implementation of the MAP.

Table 2: Implementation of Management Action Plan

ACTION	STATUS
<i>PBS 3 and CDP: Operational Interface</i>	
<p>Action #1 A screening tool, which will be used by District-level staff when preparing proposals for Bank financing of sub-projects under programmatic operations, in order to manage the risks from CDP as well as from other programs, has been developed. The procedure will enable the Bank to support such sub-projects wherever possible, by: (a) managing the operational interface, (b) being able to demonstrate that it has taken all reasonable steps to consider the implications of the interface, and (c) avoiding involvement in non-viable or seriously deficient commune centers. The procedure is simple and is designed to be embedded within the regular Environmental and Social Management Frameworks already in use by such sub-projects. It involves gathering basic data on the commune center and classifying it in terms of its viability. Based on the classification, the Bank determines whether, and how, the Bank-financed sub-project should proceed.</p>	<p>Completed. Roll-out of the Alignment of Operations procedure, including a screening tool, was launched on July 16, 2015 in a portfolio-wide meeting in Addis Ababa involving 30 concerned senior federal Government staff implementing Bank-financed projects. Prior to the meeting, the Government approved the screening tool.</p>
<p>Action #2 Study to help the Bank ensure that staff whose salary is partially funded through block grants under PBS 3 are employed as intended, and possibly help identify issues to watch for when preparing future projects.</p>	<p>Completed. The potential role of Development Agents (DAs) in supporting activities such as CDP was cited. The DA Tracking Survey was finalized. It found that there was no evidence of DAs doing work beyond their defined roles. However, as noted in the Management Response, activities carried out during DAs own spare time cannot be verified.</p>

⁴ Integrated Budget and Expenditure System, which is a computer based system that can provide real time information at all levels.

ACTION	STATUS
Reducing systematic social and environmental risks	
<p>Action #3 Continue to build the capacity of woreda-level staff to implement the Bank’s safeguard policies, including through a woreda-level safeguard manual that can be used across the country.</p>	<p><i>Ongoing.</i> A review of the performance of Environmental and Social Impact Assessment at local Government level, including identification of the challenges and opportunities, is now completed for all regions. The review covered institutional arrangements, existing regulations, and capacity challenges in order to ensure appropriate environmental and social management and impact assessment, in the planning and delivery of basic services supported by PBS 3 at regional and woreda levels. The findings of the review will inform the development of the safeguard manual. Tailor-made training modules will be included in the Environmental and Social Management System Operational Manual, which will be completed by May 2016. Once the safeguard management manual is adopted, this activity will be deemed to be completed. This is a DLI under the ESPES.</p>
<p>Action #4 Recruit a Senior Operations Specialist within the PBS secretariat to help implement the safeguard policies and provide continuous support to woreda-level staff.</p>	<p><i>Completed.</i> The staff member came on board and has been providing support for safeguards capacity at all levels since May 2015.</p>
Improving Citizen Engagement	
<p>Action #5 Expand social accountability programs and strengthening the link between social accountability and work on financial transparency</p>	<p><i>Ongoing.</i> The social accountability programs in almost all 223 woredas have reached the service improvement phase (i.e., citizens and service providers are now at the stage of jointly developing service improvement plans). There is an increased demand from regions for the social accountability implementing agency’s help with training on budget consultations. This is a long term effort and for the purposes of this action plan will be deemed completed when the third phase of financing for the Ethiopia Social Accountability Program (ESAP-3) has been completed.</p>
<p>Action #6 Increase citizen participation in budget decision making at woreda level</p>	<p><i>Completed.</i> The Finance Ministry issued a directive in September 2015 to require all woredas to carry out citizen consultations before budgets are approved. This is a DLI under the ESPES.</p>

ACTION	STATUS
<p>Action #7 Support the effectiveness of the EIO through training and opening of new regional branches.</p>	<p>Completed. The EIO has plans to open the seventh regional office soon in Benishangul-Gumuz. Since the Dire Dawa office serves Dire Dawa, Harar and Somali region, this will bring the number of regions with GRM offices to ten (Addis region is served by the Head Office). The regional office coordinators have been given the statutory position of Regional Ombudsman. A series of awareness raising study tours have been organized to sensitize EIO officials. In addition, administrative GRM (separate from EIO and part of the Government) offices have been established in all 9 regions and two city administrations.</p>
<p>Action #8 Train grievance redress officers in woredas to become more effective.</p>	<p>Ongoing. 222 GRM officers have been trained since the Board discussion. Another 400 will be trained this year. This action will be deemed completed when all woredas are covered.</p>
<p>Improve Agriculture and Livelihoods in Gambella</p>	
<p>Action #9 Explore to what extent the Government of Ethiopia would be interested in Bank support to address the challenges of agriculture and livelihoods in Gambella, and other Developing Regional States of Ethiopia. Such support could be provided both through existing projects, such as the Pastoral Communities Development Project and the Second Agricultural Growth Project, and as necessary through a separate operation.</p>	<p>Partially Completed. With the Board approval on March 31, 2015, of the Second Agricultural Growth Project, which was expanded to include Gambella, the commitment to support smallholder agriculture in Gambella has been met. With regards to livelihoods, the Ethiopia component of a regional project Development Responses to Displacement Impact in the Horn of Africa, includes Gambella and has a focus on improving livelihoods for host and refugee populations. The concept note was approved and the project is currently under preparation. The project is expected to be submitted for Board approval on May 31, 2016. Once this operation is approved by the Board, the Action will be deemed to be complete.</p>
<p>Reducing Systemic Risks relating to Financial Management</p>	
<p>Action #10 Financial system strengthening programs specific to the PBS will continue, including completing the roll-out of the IBEX management system to all woredas.</p>	<p>Ongoing The PBS project continues to support PFM-specific interventions that are woreda-focused and include completing the roll-out of IBEX. A four-year budget of about US\$20 million has been allocated through PBS 3 for this endeavor. PFM dialogue is strong, with quarterly high-level PFM sector working group meetings as well as technical-level meetings being conducted regularly. The recently completed Joint Review of Implementation Status (JRIS) assessed the support of the PFM and acknowledged that all deliverables set for the JRIS are met. This action will be deemed completed when all woredas use IBEX or the next generation integrated financial management system.</p>

ACTION	STATUS
Action #11 Support for system strengthening will be supplemented through a stand-alone Public Financial Management project.	Completed. After a delay due to the national elections and subsequent Government reshuffling, the project has been submitted and is expected to be approved by the Board on February 25, 2016.
Action #12 An action plan will be prepared by the OFAG to strengthen the effectiveness of all regional audit offices.	Completed. While federal audit coverage has reached 98.5 percent, there are regional variations. PBS 3 is supporting OFAG to improve the regional coverage. The action plan has been prepared.
Action #13 The audit backlog in Gambella will be tackled directly, together with OFAG, with a specific timeline and benchmarks for doing so.	Completed. The Bank has been closely following up on the audit backlog of the consolidated account of the Gambella region with the OFAG, which has dispatched teams to help the regional auditor to resolve it. The Gambella Office of the Auditor General has conducted the audit and the backlog has now been reduced to one year, which is common in most countries.
Action #14 There will be annual benchmarking of public financial management performance for all woredas	Ongoing. This is a DLI in the new ESPES. The operational guidelines are under preparation and will be finalized by Ministry of Finance and Economic Cooperation as a DLI for May 2016.
Improve Knowledge about Program and Its Impacts	
Action #15 Enhancing analytical efforts under the Managing for Results component.	Completed. Three analytical pieces have been produced that look at the equity impact of basic services in Ethiopia. Two of these have been published and a third is awaiting publication.

III. NEXT STEPS

15. *Upcoming Issues/Developments relevant to the MAP.* While there are no major issues specific to the project to note, the continuing impact of the civil war in South Sudan, and the consequent refugee influx which is overwhelming the population of Gambella, are risks that bear watching. At the moment they seem unlikely to affect the implementation of the MAP, but nevertheless they cannot be ignored.
16. *Next Progress Report to the Board.* The next progress report is due in February 2017.

ANNEX: MANAGEMENT ACTION PLAN (MAP)

The principal elements of the MAP are noted below:

- *PBS 3 and CDP: Reducing Risk from Operational Interface:*
 - (a) Findings from a Bank study on this operational interface to be used to develop a screening tool for use by District-level staff when preparing proposals for Bank financing under programmatic operations, in order to manage the risks from CDP as well as from other programs (Action #1); and
 - (b) Staff surveys underway to help the Bank ensure that staff whose salary is partially funded through block grants under PBS 3 are employed as intended, and possibly help identify issues to watch for when preparing future projects (Action #2).
- *Risk Assessment during Project Implementation:*
 - (a) Continue to build the capacity of District-level staff to implement the Bank's safeguard policies, including through a woreda-level safeguard manual that can be used across the country (Action #3);
 - (b) Recruit a specialist within the PBS secretariat to help implement the safeguard policies and provide continuous support to District-level staff (Action #4);
 - (c) Expand social accountability programs and strengthen the link between social accountability and work on financial transparency (Action #5);
 - (d) Increase citizen participation in budget decision making at District level (Action #6);
 - (e) Support the effectiveness of the Ethiopian Institution of the Ombudsman (EIO) through training, and opening of new regional branches (Action #7); and
 - (f) Train grievance redress officers in Districts to become more effective (Action #8).
- *Agriculture and Livelihoods:*

Explore to what extent the Government of Ethiopia would be interested in Bank support to address the challenges of agriculture and livelihoods in Gambella, and other Developing Regional States of Ethiopia (Action #9).
- *Financial Management:*
 - (a) Support continued financial system strengthening programs specific to the PBS (Action #10);
 - (b) Prepare a stand-alone PFM project (Action #11);
 - (c) Develop and implement an action plan to strengthen the effectiveness of all regional audit offices (Action #12);
 - (d) Increase support to the efforts of the Office of the Federal Auditor General (OFAG) to reduce the audit backlog in Gambella, including specific timelines and benchmarks (Action 13); and
 - (e) Promote annual benchmarking of public financial management performance for all Districts (Action #14).
- *Improve Knowledge about the Program and its Impact*

Enhance analytical efforts under the Managing for Results component (Action #15).