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**MANAGEMENT REPORT AND RECOMMENDATION**  
**IN RESPONSE TO THE**  
**INSPECTION PANEL INVESTIGATION REPORT**  
  
**ETHIOPIA**  
**PROMOTING BASIC SERVICES PROJECT (CREDIT NO 51620)**

**January 31, 2015**



**MANAGEMENT REPORT AND RECOMMENDATION  
IN RESPONSE TO THE INSPECTION PANEL INVESTIGATION REPORT  
OF THE  
ETHIOPIA: PROMOTING BASIC SERVICES PHASE III (CREDIT NO 51620)**

Pursuant to paragraph 23 of the Resolution Establishing the Inspection Panel (IBRD Resolution 93-10 and IDA Resolution 93-6), attached for consideration by Executive Directors is Management's Report and Recommendation in response to the findings set out in the Investigation Report No. 91854-ET dated November 21, 2014, of the Inspection Panel on the captioned Project (Ethiopia: Promoting Basic Services Project, Credit No 51620).



**MANAGEMENT REPORT AND RECOMMENDATION  
IN RESPONSE TO THE  
INSPECTION PANEL INVESTIGATION REPORT NO. 91854-ET**

**ETHIOPIA  
PROMOTING BASIC SERVICES PHASE III (CREDIT No 51620)**

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## ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BoFED	Bureau of Regional Government for Finance and Economic Development
CA	Continuous Audit
CDP	Commune Development Program
CPS	Country Partnership Strategy
CSO	Civil Society Organization
DAG	Development Assistance Group
DFID	Department for International Development (United Kingdom)
EIO	Ethiopian Institution of the Ombudsman
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESAC	Enhanced Social Assessment and Consultation
FTA	Financial Transparency and Accountability
GoE	Government of Ethiopia
GRM	Grievance Redress Mechanism
GTP	Growth and Transformation Plan
HDI	Human Development Index
HEW	Health Extension Workers
IBEX	Integrated Budget and Expenditure
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFR	Interim Financial Report
IGFT	Inter-governmental Fiscal Transfer
IL	Investment Lending
IPN	Inspection Panel
JRIS	Joint Review and Implementation Support
MDG	Millennium Development Goals
MoFED	Ministry of Finance and Economic Development
OFAG	Office of the Federal Auditor General
OMS	Operational Manual Statement
OP	Operational Policy
ORAF	Operational Risk Assessment Framework
PAD	Project Appraisal Document
PBS	Promoting Basic Services
PDO	Project Development Objective
PSIA	Poverty and Social Impact Analysis
UN	United Nations
UNDP	United Nations Development Programme
US	United States
WBG	World Bank Group
Woreda	District of Ethiopia, with an average population of 100,000

## EXECUTIVE SUMMARY

i. On October 9, 2012, the World Bank Inspection Panel registered a Request for Inspection of the Ethiopia: Promoting Basic Services Phase 3 Project (PBS 3), submitted by representatives of 26 Anuak people from the Gambella region of Ethiopia, who alleged that they have been adversely affected by the Project. Following Board approval for an investigation into these claims, the Panel reviewed the allegations and the Project, and issued its investigation report on November 21, 2014. This Management Report and Recommendation responds to the Panel's findings as required by the Board Resolution and proposes actions to address the Panel's findings.

### MANAGEMENT RESPONSE TO PANEL FINDINGS

ii. ***Management concurs with the Panel's conclusion that the harm alleged in the Request cannot be attributed to the Project.***

iii. ***Management further appreciates that while the Panel's Report finds possible weaknesses in project appraisal and design, the Panel's Report does not conclude that such weaknesses resulted in or contributed to the harm alleged by the Requesters.***

iv. ***Management remains of the view that PBS 3 was neither intended, nor was it an appropriate instrument to address possible shortcomings of the Community Development Program, a GOE program that is not supported by the Bank.<sup>1</sup>*** This is consistent with the Panel's finding that these adverse impacts did not result from PBS 3.

v. ***Management remains deeply troubled by the Requesters' reports that they have suffered abuse in connection with the CDP in Gambella.*** Management has actively raised and engaged to address these reports including at the highest GoE levels. Senior Management of the Bank has consistently raised the concerns surrounding CDP to the senior officials of GoE during their visits to the country and in high-level meetings over the past three years. As soon as the Bank became aware of the CDP, the Development Assistance Group (DAG) launched a dialogue with the GoE about the implementation challenges of CDP. The Bank's country management also participated in DAG field visits to learn firsthand how the CDP was being implemented on the ground in Gambella and other regions. The Bank's country-level dialogue has allowed the Bank and Development Partners, through the DAG, to communicate to the GoE their concerns regarding the development challenges that programs such as the CDP face, based on global experience. The GoE has accepted the feedback provided by the Bank and recognized that the CDP implementation needs to be improved. Later field visits have seen GoE efforts to improve implementation of the CDP, addressing the shortcomings raised.

vi. ***Management has recognized there are specific challenges for the Anuak communities in Gambella, and has made efforts to address them both through***

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<sup>1</sup>The CDP is a GOE program that seeks to cluster dispersed populations in sparsely populated areas into "commune centers" in four Developing Regional States of Ethiopia.

***adaptation of PBS 3 and through additional targeted interventions.*** The Bank is in discussion with the GoE regarding possible support to address challenges for agriculture and livelihoods in Gambella, including for the Anuak communities. Management has included expansion to the Gambella Region in the scope of livelihood support under the proposed Ethiopia Agricultural Growth 2 Project, which is currently being appraised. Management explores options for such support for agriculture and livelihoods in Gambella both through existing projects and new operations. A particular mechanism that helps strengthen the communities' ability to improve their livelihoods are citizen participation in budget decision making and increased citizen voice and accountability.

vii. Management has made, and will continue to make, efforts in this regard, consistent with the main lesson from PBS3 implementation and the guidance provided by the Board.<sup>2</sup> In particular, the development and implementation of a Grievance Redress Mechanism and social accountability in Gambella (supported by PBS 3), including help to the Ethiopia Institute of Ombudsman to fast-track the opening of a branch in Gambella, have been important steps in this direction. The Grievance Redress Mechanism in Gambella, is now operational and receives and processes complaints from communities. The PBS 3 support for the Ethiopia Institute of Ombudsman has resulted in a functional branch in Gambella. Management is committed to further strengthening our support in this area.

viii. ***Management appreciates the Panel's Report, which recognizes the importance of PBS 3 for Ethiopia, the complexity of the Project and the local setting, and the value of the Bank's engagement in this type of project.*** Management appreciates the Panel's thorough review of the Project and its observations and analysis. Management also appreciates that the Panel's Report recognizes the steps Management has already taken to address some of the Requesters' concerns under the Project, such as support to the Ethiopian Institution of the Ombudsman to expand access to grievance redress in Gambella.

#### COUNTRY CONTEXT AND THE PROMOTING BASIC SERVICES PROJECT

ix. ***Ethiopia remains one of the world's poorest countries, but has achieved high levels of economic growth, and made substantial progress on social and human development over the past decade.*** The GoE is currently implementing its ambitious Growth and Transformation Plan (GTP), which sets a long-term goal of becoming a middle-income country by 2025. As a main feature of the GTP, Ethiopia has opted to deliver basic services such as education, primary health care, agricultural extension advice, water, and rural roads through a highly decentralized system, with delivery managed at the district level.

x. ***The Promoting Basic Services Project (PBS) operates nationwide. It contributes to expanding access to, and improving the quality of, basic services such as education and health to support Ethiopia in reaching the Millennium Development Goals.*** This is

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<sup>2</sup> Chair Summary for the Board's approval of the PBS 3 in 2012: "[...]Directors noted that a complaint has been received by the Inspection Panel. Directors underscored the importance of working with development partners on addressing fiduciary and safeguard risks and urged continued strengthening of financial, procurement, safeguards and monitoring and evaluation capacity as well as grievance mechanisms. [...]"



achieved 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 phase 3 (PBS 3) is a multi-year program of over US\$6 billion, funded by the Government of Ethiopia (GoE) and supported by a number of Development Partners (UK, EU, AfDB, Austria and Italy) including the World Bank. The World Bank's share is US\$600 million, which funds approximately 9 percent of salaries of civil servants in the health and education sector through PBS 3 block grants. PBS 3 includes components that develop local capacity for citizens' engagement – through financial transparency and accountability, a social accountability program, and grievance redress mechanisms which are critical to success.

xi. ***There is clear evidence that District-level spending is effective in improving basic service delivery, especially for health and education.*** PBS has helped to make spending more effective. 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. PBS 3 is also strengthening grievance redress services in Ethiopia.

xii. ***PBS 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. 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 across the country. Based on this decentralized service delivery approach in Ethiopia, the under 5 mortality rate has fallen from 123 per thousand in 2005 to 88 in 2010; and there have been significant increases in net and gross primary education enrolment rates, and in the share of the rural population with access to clean water.

#### DETAILED RESPONSE TO PANEL FINDINGS

xiii. The Request for Inspection claimed that Anuak communities had been adversely affected by the GoE's "villagization" program, officially known as the Commune Development Program (CDP). Specifically the Request alleges four types of harm on which the Panel has focused its investigation: (i) involuntary taking of land; (ii) use of force and intimidation by the GoE; (iii) lack of services at relocation sites; and (iv) deterioration of livelihoods.

xiv. ***Interface with the CDP. PBS and CDP are separate programs that are not linked, and the Bank is not supporting CDP.*** There is a geographical and sectoral overlap in four regions of Ethiopia, where the two programs are implemented at the same time, and civil servants at the district level may have been involved in implementing both programs. This is not uncommon for Bank-supported operations, which are generally implemented by Borrower civil servants. Management has addressed the potential impacts arising from CDP through country-level level dialogue with the GoE. In Management's view, PBS is not the appropriate tool to address possible portfolio-wide implications on Bank supported operations which stem from unrelated government programs. Management carefully considered the interface between PBS 3 and the CDP during the appraisal of PBS 3. This

assessment reaffirmed Management's approach to focus on a country-level dialogue with the GoE on issues arising from CDP, jointly with other Development Partners. This dialogue has identified and raised the main challenges and risks from implementing the CDP. Management remains confident that the achievement of PBS objectives did not and does not depend on the CDP. Moreover, PBS 3 was not designed with the same implementing agency as the CDP, nor were PBS 3 partners party to the CDP design, roll out or implementation plan. Management agrees with the Panel, however, that the pertinent risk analysis done for PBS 3 should have been reflected in a more elaborate manner in the project document.

xv. The Bank is currently conducting a study to identify the possible risks for Bank-supported projects in Ethiopia that could stem from nationally funded development programs such as the CDP. This study will provide guidance to Management on identifying and classifying the implications from such programs as well as approaches for managing related risks for project selection, appraisal and implementation support. The initial findings from the study demonstrate that the risks are similar across projects, thus reaffirming a portfolio-wide approach. The study also finds that the management of the risks is best handled at district level, which is where PBS is focusing its capacity-building support.

xvi. ***Applicability of Safeguard Policies.*** Management agrees that investment finance operations that the Bank finances are subject to the Bank's environmental and social safeguard policies. Projects are assessed against the Bank's safeguard policies in order to determine if these are applicable to address potential project related impacts. As with any project, Management adhered to the safeguard policies of the Bank in appraising PBS 3. In so doing, Management concluded that the safeguard policies were not applicable to the operations of PBS 3 (see para. xvii below for discussion of the special circumstances surrounding OP 4.10). Nonetheless, for the Bank portfolio in Ethiopia as a whole, Management recognized the importance of building capacity at district level to ensure the achievement of safeguard standards during design and implementation. To support this objective, PBS 3 includes significant capacity building interventions for safeguard implementation at district level.

xvii. ***OP 4.12, Involuntary Resettlement.*** Management agrees with the Panel's finding that the Bank's Policy on involuntary resettlement (OP 4.12) was not applicable to PBS and that Management therefore acted in compliance with that policy.

xviii. ***OP 4.10, Indigenous Peoples.*** The Bank's policy on Indigenous Peoples (OP 4.10) is now applied to new Bank operations in Ethiopia involving indigenous communities as defined by the Policy. At the time of project preparation, however, Management was in discussion with the GoE on how to apply OP4.10 in Ethiopia, in a manner consistent with the provisions of the country's constitution. Management notes that it had informed the Board of this. In the meantime, during project preparation (January-May 2012), Management engaged in quality assurance meetings at which the issues of OP4.10 were discussed at length. Thus, while they were pursuing the policy dialogue on Indigenous Peoples in Ethiopia, Management and the GoE adopted an approach that was consistent with — or “functionally equivalent” — with the relevant provisions of OP4.10, although that terminology was not used at that time. The policy dialogue eventually

resulted in agreement that OP4.10 would be routinely applied, where appropriate, for all Bank operations appraised since July 2013. An Enhanced Social Assessment and Consultation (ESAC) was carried out for PBS 3, once that agreement was reached. It demonstrated that the preparation, appraisal and implementation of PBS 3 have all achieved functional equivalence with the provisions of OP4.10.

xix. ***Agriculture and Livelihoods. Management notes the Panel’s observation that access to services in the agricultural sector in Gambella was adversely affected by the CDP program as it was implemented.*** As noted above, Management’s view remains that the most effective way to address the risks arising from the CDP was the national level, portfolio-wide approach the Bank and development partners adopted. It was never proposed that PBS 3, on its own, could deliver improved agricultural performance or improved livelihoods, whether in Gambella or elsewhere. Management considers that an engagement focused on agriculture in Gambella would be a more appropriate instrument to address the specific, livelihood difficulties that the Panel’s Report has highlighted. In this regard the Bank has been discussing with the African Union and others an initiative to promote economic integration between neighboring peripheries (e.g., Gambella and Upper Nile/Jonglei, South Sudan) and thus encourage sustainable economic convergence with their respective countries, an approach that might provide a framework for support on livelihoods.

xx. ***Management considers that the preparation, appraisal and implementation of PBS 3 meet the requirements of the Bank’s Operational Policy and Bank Procedures on Investment Project Finance (OP/BP10.00), as regards Financial Management.*** The Bank’s approach to financial management under PBS 3 is based on achieving reasonable assurance about the uses to which the funds have been put, and the arrangements for recording and reporting on that use. This approach is consistent with OP/BP10.00, which clarifies that the Borrower must give reasonable assurance that the funds provided are used for the purposes for which they are granted.<sup>3</sup> Further, in appraising a proposal for Bank funding, the financial management assessment considers, amongst other things, the degree to which reasonable records are maintained and financial reports produced, and whether there are reasonable controls over project funds. This approach recognizes that one of the purposes of Bank engagement is to help improve the Borrower’s capacity for financial management.

xxi. ***For PBS 3, the design of financial management built on an existing control system,*** which had been strengthened under previous phases of PBS, as well as other interventions. Thus, there is a well-established and well-functioning system for tracking expenditures and auditing at district level. The Integrated Budget and Expenditure (IBEX) Management system implemented under PBS 3 has greatly helped improve the quality of financial reporting across the country and strengthened internal controls and procedures. Audit coverage of the budget at the federal level has improved from 51 to 100 percent and at the regional level from 30 to 45 percent (for FY15). Management shares the Panel’s observation about the lag in completion of the consolidated regional audit for Gambella. The audit arrangements for PBS do not require consolidated regional audits to be delivered since project specific audit arrangements for PBS have been put in place that are managed

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<sup>3</sup> OP/BP10.02—now retired—referred simply to “assurance”.

by the Office of the Federal Auditor General (OFAG). The PBS program audit, which covers woreda and regional level audits in all regions including Gambella, is up to date. OFAG is separately working with the regional authorities to eliminate the backlog on their consolidated audit reports. These systems allow Management to assert with reasonable assurance that PBS funds were used for their intended purposes.

xxii. ***Management's approach to PBS 3 supports these systems while also recognizing the need for further improvement.*** To achieve reasonable assurance, the financial management arrangements for PBS 3 use a mix of interventions and indicators that reflect the scale and complexity of the institutions that PBS supports. The goal has been to create a framework that is manageable for the GoE and the decentralized administrations; effective in ensuring appropriate financial controls; and builds further capacity over time.

#### MANAGEMENT ACTION PLAN

xxiii. Management met with the Requesters in Nairobi and Juba on January 15, 2015 to discuss the actions proposed by Management which are focused on addressing Panel findings. During these consultations the Requesters' representative proposed the inclusion of actions that were clearly outside the scope of the Project or the Bank's remit altogether, such as terminating cooperation with the GoE and improving the security situation in Gambella.

xxiv. The principal elements of the action plan are noted below:

- ***PBS 3 and CDP: Operational Interface:***
  - (a) The findings from a Bank study on this operational interface will be used to develop a screening tool, which will be used 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; and
  - (b) A number of surveys on PBS funded staff are underway, which will help the Bank ensure that staff whose salary is partially funded through block grants under PBS 3 are employed as intended, and may help identify issues to watch for when preparing future projects.
- ***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;
  - (b) Recruit a specialist within the PBS secretariat to help implement the safeguard policies and provide continuous support to District-level staff;
  - (c) Expand social accountability programs and strengthen the link between social accountability and work on financial transparency;
  - (d) Increase citizen participation in budget decision making at district level;
  - (e) Support the effectiveness of the Ethiopian Institution of the Ombudsman (EIO) through training, and opening of new regional branches;

- (f) Train grievance redress officers in Districts to become more effective; and
- (g) Enhance analytical efforts under the Managing for Results component.

- *Agriculture and Livelihoods:*

Explore to what extent the GoE would be interested in Bank support to address the challenges of agriculture and livelihoods in Gambella, and other Developing Regional States of Ethiopia.

- *Financial Analysis:*

- (a) Support continued financial system strengthening programs specific to the PBS;
- (b) Prepare a stand-alone Public Financial Management project;
- (c) Develop and implement an action plan to strengthen the effectiveness of all regional audit offices;
- (d) Increase support to OFAG's efforts to reduce the audit backlog in Gambella, including specific timelines and benchmarks; and
- (e) Promote annual benchmarking of public financial management performance for all Districts.



## I. INTRODUCTION

1. On October 9, 2012, the Inspection Panel registered a Request for Inspection, IPN Request RQ 12/05 (hereafter referred to as “the Request”), concerning the Ethiopia: Promoting Basic Services (PBS) Phase III (Credit No. 51620) financed by the International Development Association (the Bank). The Request for Inspection was submitted by “two local representatives” on behalf of 26 Anuak people from the Gambella region of Ethiopia (the “Requesters”). The Requesters asked the Panel to keep their identities confidential.
2. The Executive Directors and the President of IDA were notified by the Panel of receipt of the Request. Management responded to the claims in the Request on November 19, 2012.
3. In its Report to the Board, the Panel found the Request eligible and recommended that the Executive Directors authorize an investigation. The investigation was authorized by the Executive Directors on July 12, 2013. On November 21, 2014, the Panel issued its report outlining the findings of the investigation. Management appreciates the Panel’s clear and thorough presentation of its findings.

## II. THE PROJECT

### Context for Country Engagement

4. ***Ethiopia is a large and diverse country, with 98 nations, nationalities and peoples, 93 languages, a total population of about 90 million,<sup>4</sup> and a population growth rate of 2.6 percent (2013).*** At that rate, the United Nations (UN) estimates that Ethiopia’s population will reach 130 million by 2025, and it is projected to be among the world’s ten largest countries by population in 2050. IDA commitments to Ethiopia in recent years have been over US\$1 billion per year. Making progress on the two goals of the World Bank Group (WBG) in Ethiopia is therefore important both for global progress and for the country itself.
5. ***Ethiopia remains one of the world’s poorest countries, but has achieved high levels of economic growth, and made substantial progress on social and human development over the past decade.*** The country’s per capita income of US\$470 (2013) is substantially lower than the regional average of US\$1,257 and among the ten lowest worldwide. Ethiopia is ranked 173 of 187 countries in the Human Development Index (HDI) of the UN Development Programme (UNDP). Economic growth, however, has helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share of the population below the poverty line has fallen from 38.7 percent in 2004/05 to 29.6 percent in 2010/11 (using a poverty line of close to US\$1.25/day). Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and HDI ranking over the past decade. It is on track to achieve the MDGs for gender parity in education, child mortality, HIV/AIDS, and malaria. Good progress has been made in universal primary education, although the MDG target may not be met.
6. ***Ethiopia’s constitution establishes a federal, democratic system, but many external observers of Ethiopia are concerned about recent political developments.*** Ethiopia’s current

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<sup>4</sup> The GoE’s latest estimate is 88 million; UN estimate is 94.1 million.

government system was established in the early 1990s by the Ethiopian People's Revolutionary Democratic Front (EPRDF), which took over the country in 1991, after militarily defeating the previous régime. Decentralization of governance to the regional and woreda levels—a woreda is a district with an average population of 100,000—has been actively pursued since 2003. Ethiopia marked an important milestone with the appointment of H.E. Hailemariam Desalegn as Prime Minister in August 2012, in the first peaceful and constitutional transition of power in Ethiopia's modern history, following the death of Meles Zenawi who had led Ethiopia since the EPRDF took power. Nevertheless, Ethiopian legislation on the role of Civil Society Organizations (CSOs) and the media, as well as the approach of the Government of Ethiopia (GoE) to internal security, raises concerns with regard to human rights, in the view of some. The GoE considers these views uninformed, particularly having regard to the security situation in the Horn of Africa. The GoE has allowed opposition parties and CSOs to stage peaceful protests, calling for the release of political prisoners, an end to government interference in religious affairs, action on unemployment and corruption, and repeal of the anti-terrorism and CSO laws. However, since the first half of 2014, the GoE has also arrested, and charged with terrorism, members of opposition parties and a number of journalists and bloggers, and there have been disturbances in Oromia, which have further raised international concern.

7. ***The GoE is currently implementing its ambitious Growth and Transformation Plan*** (GTP; 2010/11-2014/15), which sets a long-term goal of becoming a middle-income country by 2025, with growth rates of at least 11.2 percent per year during the plan period. To achieve the GTP goals and objectives, the GoE has followed a “developmental state” model with a strong role for the government in many aspects of the economy. It has prioritized key sectors such as industry and agriculture as drivers of sustained economic growth and job creation. The GTP also reaffirms the GoE's commitment to human development. The GTP reaffirms the GoE's commitment to human rights; in the GoE's view, poverty reduction is a crucial element of access to human rights. Development Partners have programs that are broadly aligned with GTP priorities.

8. ***The WBG Country Partnership Strategy (CPS) for FY2013-2016 sets out the principles for engagement within this framework, as recently reviewed in the 2014 CPS Progress Report.***<sup>5</sup> The CPS supports the GoE in implementing the GTP. It includes two primary pillars, and seven strategic objectives. Pillar One (Fostering competitiveness and employment) aims to support Ethiopia in achieving the following strategic objectives: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity (a particular focus for IFC); (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar Two (Enhancing resilience and reducing vulnerabilities) aims to support Ethiopia through: (v) improving the delivery of social services; and (vi) comprehensive social protection and risk management. The CPS also has a foundation of (vii) good governance and state building. In line with the GTP, gender and climate change have been included as cross-cutting issues in the CPS. The CPS looks at how all parts of the WBG can deploy partnerships, knowledge and lending to contribute to GTP goals and targets. PBS 3 is one operation within this broader picture. It contributes primarily to strategic objectives (v) and (vii). However, despite the scale and breadth of PBS, it remains only one part of the broader engagement that WBG has with Ethiopia.

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<sup>5</sup> Report No. 90893-ET, October 17, 2014.



## PBS Program Architecture

9. As a main feature of the GoE's GTP outlined above, ***Ethiopia has opted to deliver basic services such as education, primary health care, agricultural extension advice, water, and rural roads through a highly decentralized system.***<sup>6</sup> Delivery is managed at the woreda level, with the services financed predominantly through inter-governmental fiscal transfers (IGFTs) from the federal to the regional and then to the woreda administrations, although some woredas raise a small amount of revenue to support local services. Since 2006, through the PBS program, Development Partners and the GoE have co-financed block grants for decentralized services. Woreda-level block grants primarily support locally recruited staff who provide basic services in five sectors (health, education, agriculture, water and sanitation, and rural roads). As an essential complement to this block-grant funding, the program supports measures to improve the quality of services and local governments' capacity to deliver them, by strengthening accountability and citizen voice.

10. ***PBS phase 3 (PBS 3) is a nationwide, multi-year program of over US\$6 billion, funded by the GoE and supported by a number of Development Partners (UK, EU, AfDB, Austria and Italy) including the World Bank.*** The World Bank's share is US\$600 million, which funds approximately 9 percent of salaries of civil servants in the health and education sector through PBS 3 block grants. The PBS 3 project development objective (PDO) states that the program 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 governments at the regional and local levels. The PBS 3 Results Framework sets out the detailed indicators of progress towards this objective. The PDO level indicators focus specifically on the adequacy of staffing and operations, and strengthening of capacity (see Annex 2). So while the PDO recognized the existence of a higher level objective regarding the quality of services delivered, it did not commit PBS 3 to achieve those quality improvements on its own.

11. ***PBS support for improving basic services has been based on an effort to make service providers more accountable to citizens.*** As discussed in the World Development Report 2004,<sup>7</sup> basic service delivery requires two things: First, accountability of politicians to citizens for resource allocation and monitoring; second, accountability of service providers to politicians for producing results. This has been called the two legs of the "long route to accountability." While Ethiopia's strong system of decentralized service delivery has made the second leg work well, the first leg has been traditionally weaker. PBS3 has tackled this shortcoming directly through the strengthening of financial transparency and accountability (educating citizens on local budgets and publicly providing information on budgets and service delivery goals), social accountability (improving citizens' opportunities to provide feedback directly to local administrators and service providers), and impartial procedures to redress grievances, such as instituting the independent Ethiopian Institution of the Ombudsman (EIO), for example.

12. ***The overall architecture of PBS 3 was discussed extensively with Executive Directors, before Board approval.*** Management held extensive discussions with Executive Directors, both

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<sup>6</sup> This section draws heavily on a recent book *Improving Basic Services for the Bottom Forty Percent: Lessons from Ethiopia* ISBN 978-1-4648-0331-4.

<sup>7</sup> World Bank (2003).

prior to Board presentation, and during the Board discussion of PBS 3. This discussion covered the full range of risks, which included those posed by the Commune Development Program (CDP). Approval of PBS 3 thus reflects the Board's full consideration of these risks.

## PBS Achievements

13. ***There is clear evidence that woreda-level spending is effective in improving basic service delivery, especially for health and education.*** Since 2006, the PBS program has supported decentralized delivery of health, education, water and sanitation, agriculture and (since 2009) rural roads. The program promotes stronger citizen engagement and improved accountability through local civil society organizations. Based on an effective partnership between the Government of Ethiopia, the World Bank and the major Development Partners operating in the country, the program has played an essential role in achieving several of the 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 this decentralized service delivery approach in Ethiopia, the under age 5 mortality rate has fallen from 123 per thousand in 2005 to 88 in 2010; and there have been dramatic increases in net and gross primary education enrolment rates, and in the share of the rural population with access to clean water.

14. ***The PBS program supports an institutional approach that combines strong top down accountability with mechanisms to promote citizen feedback, and increase woreda-level spending, financed through IGFTs.*** Relying heavily on PBS program support, that approach has been shown to be a very effective strategy for Ethiopia to attain its MDGs. Spending on health and education accounts for almost 80 percent of PBS-financed spending by the woredas, which goes to pay for health extension workers (HEWs) and teachers. Owing to the intervention of HEWs, the use of health services has increased, especially among the poorest quintiles. Every additional US\$1 of per capita health spending by woredas is associated with increases in the use of contraceptives (6.4 percent) and deliveries by skilled birth attendants (11.3 percent),<sup>8</sup> both of which can reduce maternal mortality dramatically, as well as an increase in antenatal care (3.6 percent), which can reduce infant and child mortality significantly. For education, an increase of US\$1 per capita in spending by each woreda is associated with a 3.6 percent increase in the net primary enrollment rate. Similar results are seen for the pupil-teacher ratio. Finally, increased woreda-level spending on agricultural extension workers is associated with higher yields for major crops, including cereals, vegetables, enset, coffee and fruit. Spending on agricultural extension workers increases the probability that farmers, regardless of the size of their plots, will use improved farming techniques.

15. ***PBS has helped to make spending more effective.*** Education (62 percent), health (17 percent), and agriculture (18 percent) account for 97 percent of woreda spending, which in turn constitutes 97 percent of PBS-financed IGFTs. This is complemented by support for greater engagement among citizens, improvements in local capacity to manage resources, and better access to information on national and local budgeting and development objectives. While it is difficult to provide precise estimates of the impact of the latter activities, the direction of their

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<sup>8</sup> Khan et al, *Improving Services for the bottom 40%: Lessons from Ethiopia*, World Bank, 2014, ISBN 971-1-4648-0331-4.

effect is clear: spending efficiency is improved through better capacity, more transparency, and greater accountability to citizens.

<b>Evolution of Key Service Delivery Indicators and Results in Ethiopia</b> <b>During PBS Period 2006-2014</b>			
<i>Indicator</i>	<i>Start of PBS 2006</i>	<i>2014</i>	<i>Source</i>
Child Mortality (1-4 years) 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	MoA
Cereal Productivity in Quintals per hectare	15	20	Agriculture Sample Surveys
Access to Improved Rural Water Supply	46%	75.5%	MoWIE
Percent of Kebeles Connected to All Weather Roads	20%	64%	ERA
Note: PBS financed district (woreda) block grants were used to finance health extension workers, teachers, agriculture extension workers, water supply and sanitation offices at kebele level and road maintenance staff at woreda level. The Poverty and Social Impact Assessment findings show that this has a direct impact on most of the above indicators.			

DHS = Demographic and Health Survey; ERA = Ethiopian Roads Authority; EMIS = Education Management Information System; HMIS = Health Management Information System; MoA = Ministry of Agriculture; MoWIE = Ministry of Water, Irrigation and Energy

16. ***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.*** Even though woredas must operate under federal guidelines, they still exercise a significant amount of discretion that can affect the quality of life and services. In a survey on financial transparency, covering a sample of thousands of local people in pilot areas, more than 84 percent responded positively to social accountability initiatives, which had increased citizens' awareness of their rights, responsibilities, and entitlements to basic services. After service providers and users drew up joint service improvement plans, basic services improved, and so did the quality of the engagement between citizens and service providers. Through the financial transparency and accountability component of the PBS program, citizens have become more aware of the government budgeting process. As a result, they are advocating more effectively for their rights. The PBS program has also improved the efficiency of resource use by improving financial management and procurement capacity at the woreda level.

17. ***Grievance redress mechanisms*** are another means of ensuring that citizens' voices are heard with respect to government services. A grievance redress mechanism provides the opportunity for an impartial third party to review a transaction that has taken place between the

government and a citizen or a group of citizens. As evidence of its value, a recent visit to Amhara and Tigray Regions found that in those regions, some 400-500 people per woreda, per year, are submitting complaints through this mechanism. Through dialogue and technical and financial support, PBS 3 is strengthening the EIO and the regional Grievance Hearing Offices, which offer these services.

18. ***Overall, the benefits of PBS-financed spending at the woreda level on health, education, and agriculture accrued to all income levels.*** Woreda-level spending on health and education is particularly pro-poor: 58 percent goes to the two bottom wealth quintiles; this compares very favorably to 33 percent of total spending (including woreda spending) in these sectors going to the bottom 40 percent. In agriculture, woreda-level spending (primarily for agricultural extension workers) drives increases in output and the adoption of new, improved methods across all asset quintiles. However, as compared to the distributional impacts of education and health spending, the magnitude of the effect in agriculture was smaller for the bottom quintile, perhaps because of a lack of availability of financing to purchase productivity-enhancing inputs that development agents recommend.

19. ***Of critical importance is the fact that PBS resources have been broadly concentrated upon the historically disadvantaged regions, including those with majority Anuak populations.*** A final important question one of the key principles underlying PBS,<sup>9</sup> that of equity, is whether PBS program resources channeled to the woredas are reaching Ethiopia's historically disadvantaged regions and ethnic groups. Management can confirm that in terms of basic service expenditure per capita, the ***current system broadly favors Ethiopia's historically disadvantaged regions compared to the historically dominant ones.*** More than 50 percent of the woredas in Gambella and 30 percent in Benishangul Gumuz—the two most disadvantaged regions of the country—spend more than 110 percent of the national average per capita on the basic service sectors. Spending also appears to favor some historically disadvantaged ethnic groups, in accordance with constitutional mandates. Indeed, five majority-Anuak woredas are noteworthy for receiving the most public resources per person of all woredas in the nation.

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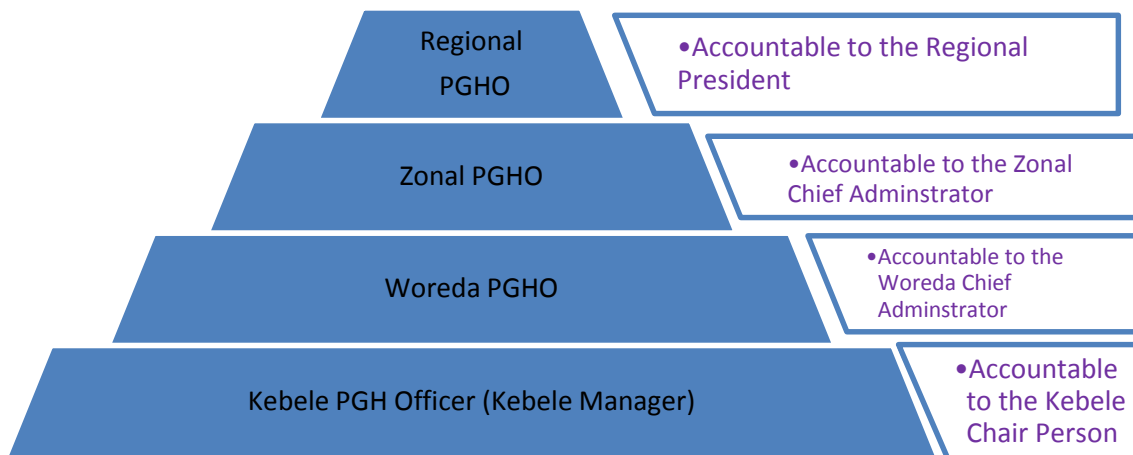
<sup>9</sup> There are eight core principles underlying the Promoting Basic Services program. These are i) Results and Effectiveness; ii) Sustainability; iii) Additionality; iv) Fairness; v) Equity; vi) Transparency; vii) Fiduciary Probity; and viii) Predictability. To review the Equity Principle, PBS tracks and assesses any discrepancies in access to basic services among the different regions and woredas, and between genders, with a view to identifying possible interventions to address these discrepancies.

### ***Box 1: Grievance Redress Mechanisms in Ethiopia***

The **Ethiopian Institution of the Ombudsman (EIO)**, with six branches at present, is a federal entity accountable to the Federal Parliament and responsible for ensuring that the constitutional rights of citizens are not violated by executive organs. It receives and investigates complaints in respect of maladministration; conducts supervision to ensure the executive carries out its functions according to the law; and seeks remedies in case of maladministration.

The **Regional Public Grievance Hearing Offices (PGHOs)** are regional entities accountable to their respective regional Presidents. They are responsible for receiving appeals, complaints and grievances related to public services and good governance; investigating these; and making recommendations and decisions to redress them. Most regions have established their PGHOs and have branches at zonal, woreda and kebele levels which are accountable to their respective chief administrator. At the kebele level, the Kebele Manager serves as the focal point.

A **complainant** has the option to lodge his/her complaint to the nearby EIO branch or the respective PGHO in person, through his/her representative, orally, in writing, by fax, telephone or in any other manner. Complaints are examined; investigated and remedial actions are taken to settle them. If not satisfied with the decision of the lower level of the GRM system, the complainant has the right to escalate his/her case to the next higher level of administration. In addition, some regions have mobile grievance handling teams at woreda level to address grievances by clustering kebeles; some have *good governance command posts* to handle cases that have not been settled by the Kebele Manager and woreda PGHOs. PBS 3 is supporting GRM system strengthening including the opening of new EIO branches. The following figure shows the structure of PGHOs.



### III. SUMMARY OF PANEL FINDINGS

Issue	Panel Finding	Summary: Management Response	Action Plan
<b>Alleged harm through (i) involuntary resettlement, (ii) use of force and intimidation, (iii) lack of services at relocation sites, and (iv) deterioration in livelihoods</b>	The Panel finds that the four issues of harm alleged by the Requesters cannot be attributed to the Project.	Management concurs with the Panel's conclusion that the harm alleged in the Request cannot be attributed to the Project.  Management further appreciates that while the Panel's Report finds possible weaknesses in project appraisal and design, the Panel's Report does not conclude that such weaknesses resulted in or contributed to the harm alleged by the Requesters.	No action applicable.
<b>Operational interface between PBS 3 and CDP</b>	<p>The Panel finds an operational interface between the CDP and PBS programs because of (a) commonality of their objectives, (b) mutual impacts on each other's results, (c) geographical overlap and (d) concurrent implementation.</p> <p>The Panel notes that it does not have sufficient information to draw a firm conclusion but notes how the operational interface between the CDP and PBS, and mutual impacts affecting the achievement of results under PBS, were not adequately considered at appraisal or during implementation.</p>	<p>Management addressed the risks arising from the CDP through country-level level dialogue with the GoE. Management considered the interface between PBS 3 and the CDP during the appraisal of PBS 3, and reaffirmed the soundness of this approach. In addition, while recognizing that CDP has had impacts in Gambella overall, neither CDP missions nor PBS3 Joint Review and Implementation Support (JIRIS) missions have found evidence that CDP has had "a significant impact on PBS operations." No causal link between CDP and PBS established.</p> <p>Studies for tracking of Development Agents led by the PBS secretariat and time use study of Government officials are underway. Findings will be reported along with any necessary actions arising from the findings.</p>	<p>The Bank is completing a study of the operational interface between Bank-financed projects and GoE-financed programs/projects, as promised in the initial Management Response. A screening tool, based on that study, will be used by woreda staff preparing proposals for Bank financing under programmatic operations, in order to manage the risks from CDP as well as from other programs.</p> <p>A number of surveys on PBS funded staff are underway including in the agricultural, education and health sectors. These surveys will help the Bank ensure staff partly funded by PBS are employed as intended, and may help identify issues to watch for when preparing future projects.</p>
<b>Risk Assessment during Project Appraisal</b>	Considering the magnitude of the operation, the nature of block grant financing, and the overlapping implementation between PBS 3 and the CDP, the Panel finds that Management did not carry out the required full risk analysis, nor were its mitigation	<p>Management agrees with the Panel that the pertinent risk analysis done for PBS 3 should have been reflected in a more elaborate manner in the project document, including in the PBS3 ORAF.</p> <p>The decision was taken that PBS, as a stand-alone project, is not the appropriate tool to manage risks arising from the CDP, which are portfolio wide. Extensive efforts</p>	<p>Process related finding. No action applicable.</p> <p>Assessment of the risks arising from CDP has been, and continues to be, handled at portfolio level, reflected as appropriate in each specific project, including in future using the screening tool now under development.</p>

Issue	Panel Finding	Summary: Management Response	Action Plan
	<p>measures adequate to manage the concurrent roll-out of the villagization program in four PBS 3 regions. The Panel finds that Management's approach did not meet the standards of a systematic or holistic assessment of risks, as called for in the Operational Risk Assessment Framework (ORAF) Guidance aimed at identifying adequate risk management measures for affected communities. The Panel finds non-compliance with OMS 2.20 on Project Appraisal.</p>	<p>were made to identify the risks that CDP posed, understand their implications, communicate those to the Board and mitigate the implications of those risks. Management had a well-informed view of potential risks.</p>	
<p><b>Risk Assessment during Project Implementation</b></p>	<p>The Panel recognizes Management's efforts to address social accountability during PBS 3 implementation. The Panel also appreciates that the establishment of the grievance redress mechanism and the implementation of the social accountability component of PBS 3 were fast-tracked in Gambella. The Panel understands and appreciates that, more recently, Management has recognized the issue of the operational interface, and is currently supporting a study on the interface between World Bank-funded and nationally-funded programs to ensure coherence in their implementation.</p> <p>It is the view of the Panel that the lack of recognition and analysis, at appraisal, of the operational interface</p>	<p>Panel recognition of support for social accountability, and citizen engagement more broadly, is noted. Broader supervision efforts (beyond JRIS) are stressed.</p> <p>Management addressed the risks arising from the CDP through country-level dialogue with the GoE. PBS, as a stand-alone project, is not the appropriate tool given the portfolio-wide risks arising from the CDP.</p>	<p>The Bank team has been working on reducing systemic risks relating to environmental and social safeguards, and access to Grievance Redress. Steps include:</p> <ul style="list-style-type: none"> <li>(a) continuing 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;</li> <li>(b) recruiting a Senior Operations Specialist within the PBS secretariat to help implement the safeguard policies and provide continuous support to woreda-level staff;</li> <li>(c) expanding social accountability programs and strengthening the link between social accountability and work on financial transparency;</li> <li>(d) increasing citizen participation in budget decision making at woreda level;</li> <li>(e) supporting the effectiveness of the EIO</li> </ul>

Issue	Panel Finding	Summary: Management Response	Action Plan
	between PBS 3 and the CDP, as required by the ORAF and described above, meant that the resulting risks were not adequately taken into account and properly managed and mitigated during PBS 3 implementation.		through training and opening of new regional branches; (f) training grievance redress officers in woredas to become more effective; and (g) enhancing analytical efforts under the Managing for Results component..
<b>Application of Safeguard Policies</b>	The Panel finds that the World Bank operational policies and procedures do not exclude the application of safeguard policies in Investment Lending (IL) operations providing only for recurrent expenditures. The Panel finds that to the extent that one or more safeguard policies are found to be relevant to the areas of operation of the proposed IL operation, Management should trigger and apply them.	Management agrees that investment finance operations that the Bank finances are subject to the Bank's environmental and social safeguard policies. In any Bank investment operation, the application of safeguards is calibrated in view of the potential environmental and social impacts of those operations, judged Category C for PBS 3.  Going forward, the focus will be on building the capacity of woreda staff to manage safeguards, including a safeguards manual used across the country; recruitment of a safeguards specialist within the PBS secretariat to help manage safeguards and provide continuous support to woreda staff.	Compliance. No action required.
<b>Application of OP 4.12 (Involuntary Resettlement)</b>	The Panel does not consider the CDP a necessary activity to achieve the objectives of PBS 3. The Panel finds that paragraph 4 of OP 4.12 is not applicable and that Management acted consistently with the provisions of OP/BP 4.12 by not triggering it.	Management acknowledges and agrees with the finding of the Panel that OP4.12 was not applicable and that Management acted consistently with the provisions of OP/BP 4.12 by not triggering it.	Compliance. No action required.
<b>Application of OP 4.10 (Indigenous Peoples)</b>	The Panel finds that, barring the triggering of OP 4.10, Management should have adopted the "functional equivalence" approach in the design of PBS 3, which is centered on promoting access to basic services. The Panel found no evidence in Project documents that	All Bank operations in Ethiopia now routinely apply the Bank's policy on Indigenous Peoples (OP 4.10) where it is determined to be applicable. At the time of project preparation, however, Management was in discussion with the GoE on how to apply OP4.10 in Ethiopia, in a manner consistent with the provisions of the country's constitution. In the meantime,	Subsequent to the launch of PBS 3, the terms for application of this policy were agreed between the Bank and GoE for all operations since July 2013.  To ensure PBS 3 meets the standard set in this policy, an ESAC was undertaken. The findings of this ESAC show



Issue	Panel Finding	Summary: Management Response	Action Plan
	<p>the functional equivalence approach was applied to PBS 3. The Panel notes that livelihoods, well-being and access to basic services, which are closely tied to the Anuak's access to land and natural resources were not taken into account in the design of PBS 3, in non-compliance with OP 4.10.</p>	<p>during project preparation (January-May 2012), Management engaged in quality assurance meetings at which the issues of OP4.10 were discussed at length. Thus, while they were pursuing the policy dialogue on Indigenous Peoples in Ethiopia, Management and the GoE adopted an approach that was consistent with—or “functionally equivalent”—with the provisions of OP4.10, although that terminology was not used. The policy dialogue eventually resulted in agreement that OP4.10 would be routinely applied, where appropriate, for all Bank operations appraised since July 2013. An Enhanced Social Assessment and Consultation (ESAC) was carried out for PBS 3, once that agreement was reached. It demonstrated that the preparation, appraisal and implementation of PBS 3 have all achieved functional equivalence with the provisions of OP4.10.</p>	<p>that PBS is in compliance with the Bank policy on Indigenous Peoples.</p>
<b>Agriculture and Livelihoods</b>	<p>The Panel notes that access to services in the agricultural sector in Gambella, along with the possibility of achieving the higher level objectives of the Project (increasing agricultural productivity), was adversely affected by the CDP program as it was implemented.</p> <p>The Panel finds that Management's inadequate attention to the interface between the CDP and PBS has not enabled PBS to mitigate or manage the harms described in the Request for Inspection with respect to access and quality of basic services in the agricultural sector and livelihoods of</p>	<p>The Bank recognizes the concern that has been raised, and is ready to explore how far GoE would be interested in World Bank support to address this challenge through existing projects such as: the Pastoral Community Development Project and the Agricultural Growth Program. It is beyond the scope of PBS 3.</p> <p>Going forward, the Bank will review how these projects could address these challenges, and as necessary propose to GoE ways to adapt them, or review the need for a separate operation.</p>	<p>The Bank is ready to explore to what extent the GoE 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 Community Development Project and the Agricultural Growth Program, and as necessary through a separate operation.</p>

Issue	Panel Finding	Summary: Management Response	Action Plan
	<p>affected people in Gambella.</p> <p>There is no indication that the agricultural extension services that are of paramount importance for the livelihood of rural populations, and especially indigenous groups, were being monitored and aligned to deliver appropriate results for beneficiaries. The Panel finds that this is not consistent with the supervision provisions of the investment lending policy, OP/BP 10.00.</p>		
<b>Financial Analysis</b>	<p>The Panel finds that Management did not comply with the requirements of OMS 2.20 and OP/BO 10.02 in the design and appraisal of PBS 3. The Panel notes that the Bank's assertion that the funds can be tracked at the woreda level cannot be sustained.</p>	<p>The preparation, appraisal and implementation of PBS 3 meet the requirements of the Bank's Operational Policy and Bank Procedures on Investment Project Finance (OP/BP10.00), as regards Financial Management.</p> <p>The financial management arrangements for PBS3 use a mix of interventions and indicators that reflects the scale and complexity of the institutions that PBS supports. Implementation experience has confirmed the ability to track expenditures and vindicated the choice of indicators.</p>	<p>The Bank team has been working on reducing systemic risks relating to Financial Management. Steps include:</p> <p>(a) 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>(b) Support for system strengthening will be supplemented through a stand-alone Public Financial Management project.</p> <p>(c) An action plan will be prepared by the Office of the Federal Auditor General (OFAG) to strengthen the effectiveness of all regional audit offices.</p> <p>(d) The audit backlog in Gambella will be tackled directly, together with OFAG, with a specific timeline and benchmarks for doing so.</p> <p>(e) There will be annual benchmarking of public financial management performance for all woredas.</p>

#### IV. RESPONSE TO FINDINGS OF THE PANEL

20. ***Management concurs with the Panel's conclusion that the harm alleged in the Request cannot be attributed to the Project.***

21. ***Management further appreciates that while the Panel's Report finds possible weaknesses in project appraisal and design, the Panel's Report does not conclude that such weaknesses resulted in or contributed to the harm alleged by the Requesters.***

22. ***Management remains of the view that PBS 3 was neither intended, nor was it an appropriate instrument to address possible shortcomings of CDP, which remains a separate program not supported by the Bank.*** This is consistent with the Panel's finding that these adverse impacts did not result from PBS 3. Management notes the Panel's view that PBS should have acted as mitigation against some adverse impacts stemming from the CDP (specifically the alleged lack of services at relocation sites and deterioration of livelihoods), but as laid out below has sought to address these impacts in other ways that appeared more appropriate.

23. ***Management remains deeply troubled by the Requesters' reports that they have suffered abuse in connection with the CDP in Gambella.*** Management has had a three-level framework of engagement to actively addressing these reports: at senior GoE level; through country level dialogue; and through work on the specific challenges for Anuak in Gambella, as set out below.

- Senior Management of the Bank has consistently raised our concerns to the senior officials of GoE during their visits to the country and in high-level meetings in other locations, during the last three years. GoE officials have recognized the seriousness of the concerns expressed, and appreciated the country level dialogue on these concerns.
- The Bank's country-level dialogue has allowed the Bank and Development Partners, through the Development Assistance Group (DAG), to communicate to the GoE their concerns regarding the development challenges that programs such as the CDP face, based on global experience. As soon as the Bank became aware of the CDP, the DAG launched a dialogue with the GoE about the implementation challenges of CDP. The Bank's country management also participated in DAG field visits to learn how the CDP was being implemented on the ground in Gambella and other regions. The GoE has accepted the feedback provided by the Bank and other DAG members and recognized that the CDP implementation needs to be improved. Later DAG visits have seen that implementation of the CDP has improved over time, and that this reflects GoE efforts to improve delivery.
- Management has recognized there are specific challenges for the Anuak communities in Gambella, and has made efforts to address them. The Bank has offered the GoE its support to address challenges for agriculture and livelihoods in Gambella, and has included Gambella Region in the scope of livelihood support under the proposed Agricultural Growth 2 Project currently being appraised. Further such support could be provided through other, existing projects or a separate operation. Moreover, Management has made efforts to accelerate work on a Grievance Redress Mechanism and social accountability in Gambella. This includes PBS 3 support to help the Ethiopia Institute of Ombudsman to fast-track the opening of a branch in Gambella. Moreover, PBS 3 has been catalytic in addressing transparency and social aspects through promoting citizen participation in budget decision making, thus

increasing citizen voice and accountability. This is consistent with the guidance provided by the Board.<sup>10</sup>

24. ***Management appreciates the Panel’s Report, which recognizes the importance of PBS 3 for Ethiopia, the complexity of the Project and the local setting, and the value of the Bank’s engagement in this type of project.*** Management appreciates the Panel’s thorough review of the Project and its observations and analysis, as well as the recognition of the steps Management has already taken to address some of the Requesters’ concerns under the Project, such as support to the Ethiopian Institution of the Ombudsman to expand access to grievance redress in Gambella.

## Interface with the CDP

25. ***PBS and CDP are separate programs that are not linked, and the Bank is not supporting CDP. There is a geographical and sectoral overlap in four regions, where the two programs are implemented at the same time and civil servants at the woreda level may have been involved in implementing both programs. In light of this Management has addressed the risks arising from the CDP through country-level level dialogue with the GoE.*** In Management’s view, PBS, as a stand-alone project, is not and has not been the appropriate tool through which to focus on the portfolio-wide risks arising from the CDP. While recognizing that the CDP has had impacts in Gambella overall, neither CDP missions nor PBS 3 JRIS missions have found evidence that the CDP has had “a significant impact on PBS operations.”<sup>11</sup>

26. The Panel points out that the PBS and the CDP both seek to improve local basic services, i.e., are directed to the same higher order objective, and were both operating in Developing Regional States of Ethiopia, including Gambella, from 2010 to 2013. However, the existence of multiple programs, all of which contribute to similar objectives, is unsurprising, given the compelling development needs of the Developing Regional States. Management considers that the achievement of PBS objectives did not and does not depend on the CDP. Moreover, PBS 3 was not designed with the same implementing agency as the CDP, nor were PBS 3 partners party to the CDP design, roll out or implementation plan. While Management carefully considered the interface between PBS 3 and the CDP during the appraisal of PBS 3, it reaffirmed this view. Since there is no causal link between the two, both the Bank and other Development Partners engaged with PBS had no basis on which to request that the GoE take specific account of PBS in the CDP, nor to apply their safeguard policies to the CDP. Therefore, Management was not in a position to use PBS 3 to influence the concurrent roll-out of the CDP in the Developing Regional States, nor did Management consider this to be an appropriate way to address the challenge of the CDP.

27. ***While the harm alleged in the Request cannot be attributed to PBS, the Bank approach to addressing the risks arising from the CDP continues to be engagement, along with other Development Partners, in country-level dialogue with the GoE, as noted in the Management Response to the Request for Inspection of PBS 3.*** Partners have sought to use this dialogue to examine, among other aspects, the environmental and social development impacts of the CDP.

<sup>10</sup> Chair Summary for the Board’s approval of the PBS 3 in 2012: “[...]Directors noted that a complaint has been received by the Inspection Panel. Directors underscored the importance of working with development partners on addressing fiduciary and safeguard risks and urged continued strengthening of financial, procurement, safeguards and monitoring and evaluation capacity as well as grievance mechanisms. [...]”

<sup>11</sup> Panel Report, para. 38.

Together with those Partners (collaborating as the Development Assistance Group or DAG), the Bank has engaged with the GoE since late 2010 in a policy dialogue on the CDP, including: (a) undertaking numerous meetings with both federal Ministers and regional officials to gather information about the program's objectives, plans, funding and status of implementation; (b) providing advice to the GoE on good practice guidelines and principles for resettlement; (c) undertaking field visits to learn how the program is being implemented on the ground, and, based on these observations, (d) raising concerns as appropriate. DAG-sponsored missions including Bank staff and Development Partners have found that planning was often inadequate, relocation was too rapid, the sequencing of site improvements was poor and had inadequate finance, and implementation capacity was weak.

28. ***Within this national engagement framework, DAG members have also sought to ensure a consistent approach for individual operations.*** Thus, while PBS could not directly influence or be responsible for CDP implementation, as Management worked with the GoE to design PBS, it took into account the operating environment risks which the CDP and other similar programs presented for PBS activities in the Developing Regional States, to the extent that information on CDP implementation underway allowed. This means that the Bank and Partners have implemented a variety of risk management measures, appropriate to PBS objectives. From the perspective of the Bank, such risk management measures have included an extensive and continuous process of implementation support, as well as innovative citizen engagement measures, Grievance Redress Mechanism (GRM) support at regional and federal level, ongoing systems strengthening and analytical efforts under the Managing for Results component, and capacity building at the local level on environmental and social safeguards.

29. ***The GoE has accepted the feedback provided by the Bank and other DAG members on implementation problems, acknowledging that the CDP could be improved.*** However, the GoE has made clear consistently that the GoE will manage and finance the CDP independently of any formal Bank or other partner engagement (see Annex 3 for exchange of letters between the DAG and the GoE). The Bank will nevertheless continue this national-level engagement going forward, and understands other partners will do likewise.

30. ***The Bank is conducting an ongoing study to identify the risks for Bank-supported projects, and consequential risk management measures, arising from the interface between such projects and nationally funded development programs such as the CDP.*** The joint DAG missions on the CDP have highlighted the need to deepen understanding of the impacts the CDP is having at the local level, and their implications. This study will provide guidance to Management on identifying and classifying the implications from such interfaces, together with approaches to managing those implications for project selection, appraisal and implementation support. The initial findings from the study demonstrate that the risks arising from the CDP are similar across projects, thus reaffirming a portfolio-wide approach. One of the initial findings is that the management of the interface risks is best handled at woreda level, which is where PBS is focusing its capacity-building support. Proposed future actions include making a basic assessment of the viability of each commune center (of which there may be several within a single woreda), and reaching agreement with woreda authorities on remedial actions where appropriate. Management will review the scope of this study to ensure its findings address as appropriate the observations and findings in the Panel's Report.

31. ***The Panel found that it did not have sufficient information to determine the role which woreda-level staff played in implementing the CDP.*** However, as discussed throughout this Management Report, the existence of an operational interface between the PBS and the CDP in the Developing Regional States, including Gambella, does not imply that the Bank is able to affect or is responsible for the activities of the CDP. Further, it is commonplace for government officials at the local level, across the world, to play multiple roles in discharging government policy. The fact, therefore, that this is the case for those with responsibility for basic service provision, part of whose salary is funded through block grants under PBS 3, is unremarkable. This situation also arises in many other projects or programs the Bank supports. It would be neither feasible nor desirable to pursue an arrangement under which all officials whose functions are being partly supported by Bank finance are required to work exclusively on those functions. Such an arrangement would be highly dysfunctional and inefficient, and burden the borrower with fragmented administration and additional costs. Moreover, it would run counter to the ongoing international efforts and agreements for Aid Effectiveness. However, as discussed in paragraph 26, Management has taken and continues to take steps to engage the GoE in dialogue to address risks arising from the CDP.

32. ***Under PBS 3 implementation, staff tracking and service delivery surveys have been commissioned in the agricultural, education and health sector.*** In the agricultural sector, PBS 3 will specifically support a development agent tracking study. The Bank's partner, the United Kingdom's Department for International Development (DFID), has also conducted a woreda staff time use study.

### **PBS and Bank Safeguards Requirements**

33. Management agrees that investment finance operations that the Bank finances are subject to the Bank's environmental and social safeguard policies. Projects are assessed against the Bank's safeguard policies in order to determine if these are applicable to address potential project related impacts. As with any project, Management adhered to the safeguard policies of the Bank in appraising PBS 3. In so doing, Management concluded that the safeguard policies (see para. 35 below for discussion of the special circumstances surrounding OP 4.10) were not applicable to the operations of PBS 3.

34. ***Management agrees with the Panel that the Bank's operational policies and procedures do not necessarily exclude the application of the safeguard policies to operations providing only for recurrent expenditures.*** As Management stated in the first Management Response, "In any Bank investment operation, the application of safeguards is calibrated in view of the potential environmental and social impacts of those operations. In the case of PBS 3, based on the design and nature of the support being provided, Management determined that these impacts justified a Category C rating."

35. ***OP 4.12, Involuntary Resettlement. Management agrees with the Panel's finding that the Bank's policy on involuntary resettlement (OP 4.12) was not applicable to PBS and that Management therefore acted in compliance with that policy.***

36. ***OP 4.10, Indigenous Peoples. The Bank's policy on Indigenous Peoples (OP 4.10) is now applied to new Bank operations in Ethiopia involving indigenous communities as defined by the Policy.*** At the time of project preparation, however, Management was in discussion with

the GoE on how to apply OP4.10 in Ethiopia, in a manner consistent with the provisions of the country's constitution. Management notes that it had informed the Board of this. In the meantime, during project preparation (January-May 2012), Management engaged in quality assurance meetings at which the issues of OP4.10 were discussed at length. Thus, while they were pursuing the policy dialogue on Indigenous Peoples in Ethiopia, Management and the GoE adopted an approach that was consistent with—or “functionally equivalent”—with the provisions of OP4.10, although that terminology was not used. The policy dialogue eventually resulted in agreement that OP4.10 would be routinely applied, where appropriate, for all Bank operations appraised since July 2013. An ESAC was carried out for PBS 3 (started in April and finalized in December, 2014), once that agreement was reached. It demonstrated that the preparation, appraisal and implementation of PBS 3 have all achieved functional equivalence with the provisions of OP4.10.<sup>12</sup> This finding has also been confirmed by a Poverty and Social Impact Analysis (PSIA) that was completed in April 2014.

**37. *PBS 3 preparation, appraisal and implementation achieved functional equivalence to the provisions of OP4.10, based on five key features of the policy:*** 1. free, prior and informed consultations leading to broad community support; 2. grievance redress; 3. mitigation of adverse impacts; 4. culturally appropriate benefit-sharing; and 5. monitoring and evaluation of the Project's impacts and benefits. The bullets below detail how this was achieved.

- As part of its core design, PBS 3 seeks to promote free, prior and informed consultations among Ethiopia's nations, nationalities and peoples. Through the financial transparency and accountability sub-component and the social accountability program, it supports local consultations on improving service delivery, which have proven effective. Further, there have been specific efforts in the program to ensure that vulnerable groups are included in these citizen engagement efforts.
- As part of the PBS 3 effort to promote greater opportunities for citizen engagement, the operation includes efforts to provide improved grievance redress mechanisms. During implementation, there has been a focused effort to ensure these mechanisms have been set up in the woredas. In Gambella, a regional Office of the Ombudsman has been established.
- Through the design and implementation of the fairness and equity principles, the PBS 3 operation has sought to mitigate any potential adverse impacts and to support culturally appropriate benefit sharing of the operation. The consultation process allows local communities the opportunity to focus on services that benefit them. In support of the effectiveness of that approach, the PSIA concluded that the program appears to be helping some of Ethiopia's historically disadvantaged areas and ethnic groups to catch up with the rest of the country. While per capita expenditures for basic services at the woreda level is broadly equal across Ethiopia, those woredas with the most disadvantaged population receive strikingly higher resource flows through the PBS program as noted earlier. In keeping with the fairness and equity principles of PBS, per

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<sup>12</sup> Since application of OP4.10 was agreed upon with the GoE in June 2013, screening of Ethiopia's nations, nationalities and peoples finds that the great majority of the population is categorized as Indigenous Peoples under the policy. This is in keeping with the Ethiopian constitution, which recognizes the Nations, Nationalities and Peoples of the country in terms that are highly congruent with the concepts used to define Indigenous Peoples in OP4.10. The policy is now being routinely triggered in applicable Bank-financed operations.

capita program resource flows are lowest among the more developed, historically dominant regions.

- Finally, the PBS 3 operation supports extensive and regular monitoring and evaluation of project impacts and benefits. Beyond the above mentioned ESAC and PSIA and as expanded upon in Management's Response to the Request for Inspection, the PBS 3 program includes Sub Component B3 on Managing for Results to ensure ongoing data verification, systems strengthening and dedicated analytical activities.

## **PBS and Financial Management**

38. ***The Bank's approach to financial management under PBS 3 is based on achieving reasonable assurance about the uses to which the funds have been put, and the arrangements for recording and reporting on that use.*** This approach is consistent with, and has been made explicit in, the Operational Policy and Bank Procedures on Investment Project Finance (OP/BP 10.00), which clarify<sup>13</sup> that the Borrower must give reasonable assurance that the funds provided are used for the purposes for which they are granted. Further, in appraising a proposal for Bank funding, the financial management assessment considers, amongst other things, the degree to which reasonable records are maintained and financial reports produced, and whether there are reasonable controls over project funds. This approach recognizes that one of the purposes of Bank engagement is to help improve the Borrower's capacity for financial management.

39. ***To achieve this reasonable assurance, the financial management arrangements for PBS 3 use a mix of interventions and indicators that reflects the scale and complexity of the institutions that PBS supports.*** The goal was to create a framework that is both manageable for the GoE and the decentralized administrations, effective in ensuring appropriate financial controls, and builds further capacity over time. For PBS 3, the design built on an existing control system, which had been strengthened under previous phases of PBS, as well as other interventions.

40. ***Considerations of effectiveness and efficiency, and also of capacity building for decentralized administrations, all argued for allowing authority over spending decisions to lie with the decentralized administrations.*** The Bank team judged this was best achieved by providing grants that were not specifically earmarked, provided the spending could be tracked adequately and there were means to ensure the financial controls underlying the tracking were working well. Non-earmarking is considered best practice among decentralization specialists around the world as it increases local decision making and increases accountability to citizens, who find it easier to raise issues with local authorities than with a distant government. For such grants in Ethiopia, local governments need to meet service delivery standards and targets set by the national government and monitored by regional bureaus in the decentralized sectors.

41. ***As regards the indicators for financial management, the focus was to provide a manageable number of them, as part of the overall PBS indicator set.*** The first indicator, chosen by the Bank team after careful reflection, supports strengthening the financial management information system to improve financial management by rolling out the Integrated Budget and Expenditure (IBEX) Management system; the second directly supports the reduction

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<sup>13</sup> OP/BP10.02—now retired—referred simply to “assurance”.



of audit back-logs, a direct way to improve audit performance. Experience with PBS 3 has confirmed the relevance of these judgments.

42. ***Implementation experience has confirmed the ability to track expenditures.*** The process for tracking funds under PBS 3 was described in detail in the Project Appraisal Document (PAD) as well as the earlier Management Response. Budgets are prepared and proclaimed in a timely manner at all levels of government, which is another strength of the country's financial management system. One of the core principles of the PBS program from the time it was instituted was to check "additionality" of resources as well as fairness. Under the fairness principle resource flows from the federal government to the regions are tracked as well as resource flows from regions to woredas. Transfers are in compliance with the fairness principle only if they are rule based and delivered in a timely manner (PAD, para 3.7 page 13). Due to this, at every semi-annual JRIS meeting, resource flows are tracked to the regions and to 1,000 woredas, including the 14 (1.39 percent of the total) in Gambella.

43. Overall, recurrent spending accounts for around 85-90 percent of woreda level expenditures. In Gambella this is slightly higher at 95 percent, almost all of it going for payroll. Transaction testing at the woreda level not just in Gambella but across the country has shown that payroll systems are robust and that the challenge of ghost workers is not a major issue. Payroll audits at the woreda level have been conducted in the past for PBS and other projects by entities such as the European Court of Auditors, global firms such as Deloitte, private audit firms in Ethiopia, OFAG and regional auditor offices; these have confirmed that the payroll procedures and system are robust. Continuous Audits (CAs) constantly assess the authenticity of the payroll system and no issues have been brought to light. The previous Management Response had annexed the template for the Interim Financial Report (IFR), which showed that every region is required to report by woreda on the payroll and operating expenses, which are the expenses eligible to be funded by the Bank. Regular Bank Supervision Missions undertake transaction testing at the woreda level and track expenditures. There is therefore a well-established and well-functioning system for tracking expenditures at the woreda level.

44. ***Implementation experience has vindicated the choice of indicators.*** The successful roll out of the IBEX system has greatly helped improve the quality of financial reporting across the country and strengthened internal controls and procedures. It covers budgeting, accounting, reporting and cash management. It also has helped the GoE and the regions to overcome the backlog of annual financial accounts. In Gambella, IBEX helped the Bureau of Finance and Economic Development (BoFED) produce timely reports and strengthen its financial management systems. IBEX has been rolled out to 8 of the 14 woredas in Gambella during PBS 3 implementation; it is in the process of being rolled out to the remaining six, while solutions are being found to infrastructure constraints such as the lack of electricity.

45. The other PDO level indicator on improving audit coverage helped improve audit coverage of the budget at the federal level from 51 to 100 percent (in FY15) and regional level from 30 to 45 percent (for FY15). While Gambella remains one of the weakest regional audit offices in the country, there is noticeable improvement there in the performance of external audit. Management is therefore of the view that the PDO indicators were appropriate and met the requirements of OP/BP 10.00. All of the risk mitigation measures listed above were mentioned in several places in the PAD for PBS 3 and also in the Management Response to the Panel that was provided in November 2012, including the templates used for reporting and monitoring.

46. The Panel correctly notes that Management paid attention to challenges in financial management through regular supervision missions. The March 2013 PBS Supervision Mission to Gambella had pointed out the issues of lag in completion of regional consolidated audit reports. This finding has been reflected in the Panel's report. The audit arrangements for PBS do not require consolidated regional audits to be delivered since project specific audit arrangements for PBS have been put in place that are managed by the Office of the Federal Auditor General. The PBS program audit which covers woreda and regional level audits in all regions including Gambella, is up to date. OFAG is separately working with the regional authorities to eliminate the backlog on their consolidated audit reports. These systems allow Management to assert with reasonable assurance that PBS funds were used for their intended purpose.

### **Agriculture and Livelihoods**

47. *Management considers that an engagement focused on agriculture in Gambella would be a more appropriate instrument to address the livelihood difficulties* that the Panel's Report has highlighted, consistent with the Management approach that looks beyond PBS at the Bank's engagement with Ethiopia overall. The scope of PBS 3 is clearly defined by the PDO, description and results matrix in the PAD. It was never proposed that PBS 3, on its own, could deliver improved agricultural performance or improved livelihoods, whether in Gambella or elsewhere. To this end, the challenge of making progress on rural livelihoods has been taken up by the Bank and Development Partners in many other ways. Examples funded by the Bank include the Agricultural Growth Program; the Sustainable Land Management Program; the Productive Safety Nets Program; the Pastoral Community Development Program; the Regional Pastoral Livelihoods Resilience Program; knowledge work such as poverty mapping, studies on rural accessibility, and policy notes on well-being and ill-being dynamics in Ethiopia. Other examples include partnership engagements—including on rural economic development and food security, and the country level dialogue with GoE and Development Partners on how the CDP is implemented.

48. Nevertheless, Management recognizes that sustainable livelihoods for people in peripheral regions, such as Gambella, are an important issue, especially when those regions are also hosting significant numbers of displaced people. In Ethiopia, as in many other countries, such regions have not yet matched the economic progress at the center of the country. In this regard the Bank has been discussing with the African Union and others an initiative to promote economic integration between neighboring peripheries (e.g., Gambella and Upper Nile/Jonglei, South Sudan) and thus encourage sustainable economic convergence with their respective countries. In taking this initiative forward, Management will ensure it integrates lessons from implementation experience with PBS and other relevant operations which the Bank is supporting in Ethiopia.

## **V. LESSONS LEARNED**

### **Lessons Learned from PBS 3 Implementation**

49. *After eight years of intensive, nationwide implementation of the PBS program, through three phases of Bank support, the program has generated several important lessons about how to improve basic service delivery to reach the poorest people in Ethiopia.* The key lesson from implementation is the importance of improving citizen voice and accountability as

well as continuously improving implementation capacity. Another major lesson comes from the component on managing for results, which has continued to provide insights into how the program works and to identify constraints to achieving program goals. Finally, there is a continuous need for training and support to improve capacity at the woreda level, whether it is with respect to fiduciary, safeguard, citizen voice or implementation issues. High staff turnover in woredas throughout the country means that this must be an ongoing effort.

50. ***Management appreciates the Panel's recognition of its efforts to fast track GRM and social accountability in Gambella.*** In addition, the Project financed logistical support to help the EIO to fast-track the opening of a branch in Gambella. The EIO has also asked for, and received agreement from the Project on support to roll out offices in other regions.

51. Beyond these ongoing supervision activities, ***the Project has been catalytic in addressing transparency and social aspects.*** A great deal of detailed work is being done to improve linkages between social and financial transparency and accountability (FTA); this is covered in the Ethiopia Social Accountability Steering Committee minutes. Such efforts not only promote citizen participation in budget decision making but also provide those who may be more reluctant to speak out publicly with a safe platform to express their views on budget priorities, thus increasing citizen voice and accountability.

52. ***Decentralized government systems need strengthening to support the application of environmental and social safeguards at the respective levels.*** The debate between the Bank and the GoE on whether OP4.10 applied to Ethiopia was resolved in mid-2013 by accepting that the vast majority of Ethiopians met the requirements of OP4.10 and by applying the OP to historically disadvantaged groups. Following the agreement, the implementation team for PBS 3 carried out the ESAC, which would have been carried out before appraisal had an agreement been reached earlier. The findings from this consultation reinforced the importance of support to the decentralized systems used by government, particularly woreda systems, to implement safeguards for woreda-managed spending, despite the fact that PBS 3 itself did not trigger Bank safeguard policies. Management's analysis indicates that while Ethiopia's legal and policy framework for environmental and social safeguards is generally strong, there has been a shortcoming in implementation capacity. While other Bank supported operations have been working on improving national level capacity to implement safeguards, PBS has focused on the woreda level since PBS funds are utilized by woredas. To this end, PBS has financed a woreda safeguards capacity assessment in the four Developing Regional States, and is following that up with preparation of an operational manual to guide implementation of safeguards at the woreda level. This approach is further supported by one of the initial findings of the study of the operational interface between Bank funded and nationally funded programs, which is that to minimize risks, management of the interface is best conducted at the woreda level.

53. ***Going forward the Bank will replace its ongoing method of support to PBS Sub Program A (Block Grants) with a Program for Results operation.*** This will help ensure the Project is focused on a robust system of indicators for implementation progress. Supporting assessments for this operation will confirm the presence of an effective delivery system that meets acceptable technical, environmental and social management capacity and fiduciary principles.

## Lessons learned for the Country Program Overall

54. *Management will ensure that Bank staff in Ethiopia continues to work closely with other DAG members to follow up on any reports of abuses by Ethiopian officials*, whether or not related to a program or project that involves Bank finance. Having better understood the impact of the CDP in Gambella, as identified by the Panel and by Management's own implementation experience, Management continues to be disturbed by the allegations of harm outlined by the Requesters, even though, as the Panel recognizes, there is no evidence linking that harm to a Bank-funded activity. Management considers that the best framework for engagement on this topic is the broader development dialogue, rather than by trying to link such issues to any particular operation. In this regard Management will work with the DAG to continue to closely monitor the progress of the CDP and resettlement resulting from economic development more broadly, and explore with the GoE ways further to improve program implementation.

## VI. MANAGEMENT ACTION PLAN IN RESPONSE TO THE FINDINGS

55. Management's Action Plan to address the Panel's findings is laid out in the table below.

56. Management met with the Requesters in Nairobi and Juba on January 15, 2015 to discuss the content of the proposed Action Plan. To allow for an open dialogue the meeting was held in the Bank offices in Nairobi and Juba, and chaired by the acting Country Director, with a video link connecting the meetings with each other and with staff in Washington. Between Nairobi and Juba, 19 Requesters attended. The Bank team explained Management's proposed Action Plan to respond to the findings in the Panel's Report, and sought the Requesters' feedback on the Action Plan. During these consultations the Requesters' representative proposed the inclusion of actions that were clearly outside the scope of the Project or the Bank's remit altogether, such as terminating cooperation with the GoE and improving the security situation in Gambella.

57. The terms and locations of the consultation meetings were agreed with the Requesters' representative following a dialogue that began on December 5, 2014.

<b>Management Action Plan</b> <i>(by reference to the table of Inspection Panel findings and recommendations set out in Section III above)</i>	
PBS 3 and CDP: Operational Interface	<p>The Bank is in the process of completing a study of the operational interface between Bank-financed projects and GoE-financed programs/projects, as promised before the Board and during discussions and also in the initial Management Response. A screening tool, based on that study and following GoE endorsement, will be used by woreda staff when preparing proposals for Bank financing under programmatic operations, starting from early in calendar 2016, in order to manage the risks from CDP as well as from other programs.</p> <p>The Bank and other Development Partners are interested to better understand how effectively staff funded by PBS 3 are used. To this end a number of surveys are underway including in the agricultural, education and health sectors. These surveys, to be completed in mid FY2016, will help the Bank ensure staff partly funded by PBS are employed as intended, and may help identify issues to watch for when preparing future projects.</p>
Risk Assessment during Project Appraisal	Not applicable as part of the action plan.
Risk Assessment during Project Implementation.	<p>The Bank team has been working on reducing systemic risks relating to environmental and social safeguards, and access to grievance redress. Steps include:</p> <p>(a) continuing to build the capacity of woreda-level staff to implement the Bank's safeguard policies, including through a woreda level safeguard manual prepared by early calendar 2016 that can be used across the country;</p>

<b>Management Action Plan</b> <i>(by reference to the table of Inspection Panel findings and recommendations set out in Section III above)</i>	
	<p>(b) recruiting a Senior Operations Specialist within the PBS secretariat by end FY2015 to help implement the safeguard policies and provide continuous support to woreda-level staff;</p> <p>(c) expanding social accountability programs and strengthening the link between social accountability and work on financial transparency, including through the forthcoming PforR on basic services, due to be presented to EDs in July 2015;</p> <p>(d) increasing citizen participation in budget decision making at woreda level during FY2016;</p> <p>(e) support the effectiveness of the EIO through training and opening of new regional branches in FY2016;</p> <p>(f) training grievance redress officers in woredas to become more effective during FY2016; and</p> <p>(g) enhancing analytical efforts under the Managing for Results component (continuous).</p>
Application of Safeguard Policies	Not applicable as part of the action plan.
Application of OP 4.12	Not applicable as part of the action plan.
Application of OP 4.10 on Indigenous Peoples	<p>Subsequent to the launch of PBS 3, the terms for application of this policy were agreed between the Bank and GoE for all operations since July 2013.</p> <p>To ensure PBS 3 meets the standard set in this policy, an ESAC was undertaken. The findings of this ESAC—available in December 2014—show that PBS is in compliance with the Bank Policy on Indigenous Peoples.</p>
Agriculture and Livelihoods	<p>The Bank is ready to explore to what extent the GoE 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 Community Development Project and the Agricultural Growth Program 2, and as necessary through a separate operation, to be prepared during FY2015-16.</p>
Financial Analysis	<p>The Bank team has been working on reducing systemic risks relating to Financial Management. Steps include:</p> <p>(a) Financial system strengthening programs specific to the PBS will continue, including completing the roll-out of the IBEX management</p>

<b>Management Action Plan</b> <i>(by reference to the table of Inspection Panel findings and recommendations set out in Section III above)</i>	
	<p>system to all woredas by the end of FY2016 subject to power connections.</p> <p>(b) Support for system strengthening will be supplemented through a stand-alone Public Financial Management project, being prepared for Board consideration in late FY2015.</p> <p>(c) An action plan will be prepared by the OFAG during FY2016 to strengthen the effectiveness of all regional audit offices.</p> <p>(d) The consolidated audit backlog in Gambella has been reduced, and the Bank will work with OFAG, with a specific timeline and benchmarks for completely eliminating the backlog by FY2016</p> <p>(e) There will be annual benchmarking of public financial management performance for all woredas starting in a few some regions during FY2016.</p>

## VII. CONCLUSION

58. *Management concurs with the Panel's conclusion that the harm alleged in the Request cannot be attributed to the Project. Management thanks the Panel for its thorough review and for highlighting possible weaknesses in project appraisal and design, while recognizing that the Panel does not conclude that such weaknesses resulted in or contributed to the harm alleged by the Requesters.*

59. *Management remains deeply troubled by the Requesters' reports that they have suffered abuse in connection with the CDP in Gambella. Management has engaged at all levels of GoE to raise these reports and engage on addressing them. Specifically, Bank Management urged the GoE to review CDP implementation and consider input on corrective actions provided by the Bank and other development partners.*

60. *Bank Management recognizes the specific challenges for the Anuak communities in Gambella and is in discussion with the GoE to identify opportunities for Bank support to address these challenges. Such intervention would complement the improved access to basic services financed under PBS 3.*

61. *Management remains of the view that CDP is a separate project not linked to PBS and that PBS was neither intended, nor an appropriate tool to address potential adverse impacts stemming from the implementation of CDP.*

62. Management believes that the Bank has made every effort to apply its policies and procedures and to pursue its mission statement in the context of the Project.

63. Management believes that the proposed actions identified in its response address the Panel's findings.



## ANNEX 1

## FINDINGS, COMMENTS AND ACTIONS

No.	Findings	Comments/Actions
0	<p><b>Alleged harm</b> through (i) involuntary resettlement, (ii) use of force and intimidation, (iii) lack of services at relocation sites, and (iv) deterioration in livelihoods.</p> <p>The Panel finds that the four issues of harm alleged by the Requesters cannot be attributed to the Project.</p>	<p><b>Comment:</b> Management concurs with the Panel's conclusion that the harm alleged in the Request cannot be attributed to the Project.</p> <p>Management further appreciates that while the Panel's Report finds possible weaknesses in project appraisal and design, the Panel's Report does not conclude that such weaknesses resulted in or contributed to the harm alleged by the Requesters.</p>
1.	<p><b>PBS 3 and CDP: Operational Interface.</b> The Panel finds an operational interface between the CDP and PBS programs because of a) commonality of their objectives, b) mutual impacts on each other's results, c) geographical overlap and d) concurrent implementation.</p> <p>This interface constitutes an operational risk for the Project, which required adequate analysis during Project appraisal, and this goes beyond the reputational risk that was recognized by Management.</p> <p>In the view of the Panel, however, Management distanced itself from recognizing the operational interface between CDP and PBS and as a result, from recognizing the impact that CDP was having and will continue to have on PBS results. The impact of CDP was not taken into account during the appraisal or supervision of PBS 3.</p> <p>The Panel does not question the application of the "quasi-P4R" PBS modality, which is in line with contemporary principles of aid effectiveness. Fundamental to the effective delivery of results and successful outcomes, however, the system of delivery needs to be robust and meet accepted environmental and social safeguards principles. This investigation has highlighted key challenges for effectively implementing a system in the context of sub-national levels in Gambella that requires capacity strengthening, and in an operating environment where an alternative program is having a significant impact on PBS operations.</p>	<p><b>Comment:</b> PBS and CDP are separate programs that are not linked, and the Bank is not supporting CDP. There is a geographical and sectoral overlap in four regions, where the two programs are implemented at the same time and civil servants at the woreda level may have been involved in implementing both programs. Management has addressed the risks arising from the CDP through country-level level dialogue with the GoE. In Management's view, PBS, as a stand-alone project, is not and has not been the appropriate tool through which to focus the portfolio-wide risks arising from the CDP. While Management carefully considered the interface between PBS 3 and the CDP during the appraisal of PBS 3, this assessment reaffirmed the soundness of Management's approach, which focuses on engagement, along with other Development Partners, in country-level dialogue with the GoE. This engagement identifies the main challenges and risks from implementing the CDP across the board, regardless of funding sources.</p> <p>The existence of an interface between two activities—for any of the reasons cited by the Panel—is clearly a relevant circumstance about which the Bank needs to be aware. However, the existence of such an interface does not, in itself, demonstrate any causal link between the two operations. This is a point that was set out in paragraphs 58 to 60 of the Management Response to the Request for Inspection, which made clear that "In Management's view there is no basis to claim that PBS 3 is directly linked to villagization."</p> <p>While recognizing that the CDP has had impacts in Gambella overall, neither CDP missions nor PBS 3 JRIS missions have found evidence that the CDP has had "a significant impact on PBS</p>

No.	Findings	Comments/Actions
		<p>operations.” In managing for risk it is important to ensure that the tools used are appropriate.</p> <p>The initial findings from an ongoing study (see below) demonstrate that the risks of the CDP are equally relevant across projects, thus supporting a portfolio-wide approach.</p> <p>PBS 3 was not designed with the same implementing agency as the CDP, nor was it party to the CDP design, roll out or implementation plan. Since there is no causal link between the two, both the Bank and other Development Partners engaged with PBS had no basis on which to request that the GoE take specific account of PBS in the CDP, nor to apply their safeguard policies to the CDP. Therefore, Management was not in a position to use PBS 3 to influence the concurrent roll-out of the CDP in the Developing Regional States, nor did Management consider this to be an appropriate way to address the challenge of the CDP. This did not mean Management discounted the risks from the CDP, but rather concluded they could be better managed in a different way.</p> <p>As discussed under item 2, the Bank and Development Partners have jointly mounted missions to review progress with implementation of the CDP in all the Developing Regional States, including Gambella, over the last four years. Among other findings, those missions have highlighted the need to deepen understanding of the impacts the CDP is having at the local level, and their implications.</p> <p>The Bank and Development Partners have implemented a variety of risk management measures, appropriate to PBS objectives. From the perspective of the Bank, such risk management measures have included an extensive and continuous process of implementation support, as well as innovative citizen engagement measures (including social accountability and financial transparency), ongoing systems strengthening and analytical efforts under the Managing for Results component (B3), GRM support at the regional and federal level, and capacity building at the local level on environmental and social safeguards.</p> <p>The Bank is conducting an ongoing study to identify the risks for Bank-supported projects, and consequential risk management measures, arising from the interface between such projects and nationally funded development programs such as the CDP. This study will provide guidance to Management on identifying and classifying the</p>

No.	Findings	Comments/Actions
		<p>implications from such interfaces, together with approaches for managing those implications for project selection, appraisal and implementation support. The initial findings from the study demonstrate that the risks are similar across projects, thus reaffirming a portfolio-wide approach. One of the initial findings is that the management of the interface risks is best handled at woreda level, which is where PBS is focusing its capacity-building support.</p> <p><b>Action:</b> A screening tool, based on the above study, will be used by woreda staff when preparing proposals for Bank financing under programmatic operations, in order to manage the risks from CDP as well as from other programs.</p>
2.	<p><b>Risk Assessment during Project Appraisal.</b> Considering the magnitude of the operation, the nature of block grant financing, and the overlapping implementation between PBS 3 and CDP, the Panel finds that Management did not carry out the required full risk analysis, nor were its mitigation measures adequate to manage the concurrent roll-out of the villagization program in four PBS 3 regions. The Panel finds that Management's approach did not meet the standards of a systematic or holistic assessment of risks, as called for in the Operational Risk Assessment Framework (ORAF) Guidance aimed at identifying adequate risk management measures for affected communities. <b><i>The Panel finds these omissions in non-compliance with OMS 2.20 on Project Appraisal.</i></b></p> <p>The Panel notes that a social assessment would have been justified both to verify the robustness of the results chain that links the block grant mechanism to PBS results, and to assess any changes in the local governance context, which might put future results achievement at risk.</p> <p>While fully appreciating the context of this Project, the Investigation has highlighted various ramifications of applying the block grant mechanism in terms of its limitations for monitoring the flow of resources, both financial and human, and for monitoring and assessing results to ensure that PBS is on the right course, or to take corrective actions as soon as possible when results are found to be "off track."</p>	<p><b>Comment:</b> Management agrees with the Panel that it would have been preferable to include in the PBS 3 ORAF explicit mention of the risk which the CDP posed for PBS 3 operations in the Developing Regional States.</p> <p>Management made extensive efforts to identify the risks that the CDP posed, understand their implications, communicate those to the Board and mitigate the implications of those risks. It also made extensive efforts to understand the social dynamics of the multiple vulnerable groups in Gambella and to gauge the implications of those social dynamics for operations in the region. However, as detailed below, it undertook that risk analysis and social assessment from the perspective of the Bank's portfolio overall, not focusing solely on the PBS 3 operation. As noted in Item 1, Management does not consider that the PBS 3 operation and the CDP are linked, so from Management's perspective it is only appropriate to have done these analyses at the policy/ portfolio level rather than specifically as part of the PBS 3 project appraisal. From this portfolio-level analysis, the Bank team's understanding of the CDP informed the design and implementation of all operations in the Bank portfolio active in the Developing Regional States, including Gambella.</p> <p>The Panel's Report highlights several elements of the approach Management took to assess the risk of the CDP to activities in the Developing Regional States. Management is grateful to the Panel for recognizing these efforts. Notably, as the Panel's Report highlights, Management led the DAG in seeking to understand the nature and activities of the CDP, first through conversations with the Government, and then through field visits to better understand CDP implementation. For example, DAG members led missions to Gambella in</p>

No.	Findings	Comments/Actions
		<p>February 2011 and June 2012, and the Bank and Finland led a mission to Benishangul Gumuz in February 2011. As part of a broader effort to understand the CDP through regular project supervision missions, Bank teams also undertook missions to Somali Region and Afar. From these missions and from the broader portfolio perspective, the Bank team gained an understanding of the CDP, including the risks and opportunities that the program posed.</p> <p>Further, within the broader context of the country portfolio, Management sought to understand the social dynamics particularly of Gambella and the Developing Regional States, hiring an extended term consultant<sup>14</sup> to support the Bank team from August 2009 to July 2010. During that time and with the consultant as an expert guide, the PBS2 JRIS mission visited Gambella from October 26 to 30, 2009 to better understand the difficulties of improving basic services in the complicated social setting of the region.</p> <p>Based on the understanding of the CDP available at the time of PBS 3 appraisal, and recognizing that the CDP was an important part of the context within which the PBS program would operate in the Developing Regional States, Management sought to strengthen the design of PBS through inclusion of the equity principle, expansion of the social accountability program, and inclusion of the GRM sub-component in the program.</p> <p>Management thus had a well-informed understanding of the potential risks and benefits the CDP posed for its overall portfolio and of the social dynamics of Gambella. From this understanding, it made an informed decision about the absence of linkage between the CDP and PBS 3. However, Management did not highlight in the PBS 3 ORAF document the risks and opportunities for improved service delivery that the CDP posed in Gambella or the other Developing Regional States.</p> <p>Prior to and during the PBS 3 Board discussion, the full range of risks which the CDP posed, both for the Country Partnership Strategy and for the PBS 3 operation, was reviewed and discussed by the Board. Approval of PBS 3 thus reflects the Board's full consideration of these risks.</p> <p>Based on the Panel's analysis of CDP impact in Gambella and Management's own implementation</p>

<sup>14</sup>Also a consultant to the Inspection Panel Investigation Team hired to advise on Gambella's social dynamics and vulnerable groups.

No.	Findings	Comments/Actions
		<p>experience, Management can assess ex-post the risk the CDP posed for PBS results, particularly in Gambella. According to the Panel's findings, there were improvements in education and health services and diminution in livelihood outcomes in the villages that the Panel visited. Management does not find that the design of PBS 3 should have been changed to mitigate the risks that its own analysis and that of the Panel have highlighted. Given PBS 3's national, multi-sector approach of working with decentralized public financial management systems, PBS 3 is not an operational instrument with sufficiently fine articulation, either by region or by sector, to have addressed the subtle complications of improving agricultural livelihoods in Gambella during the CDP.</p> <p>Consistent with the Management approach that looked at the CDP from a portfolio perspective, Management takes note of the livelihood difficulties which the Panel's Report has highlighted, but finds that addressing agriculture and livelihoods in the Developing Regional States, including Gambella, can best be addressed through an alternative and focused engagement rather than through PBS 3. See also Item 7 below.</p> <p><b>Action:</b> None required.</p>
3.	<p><b>Risk Assessment during Project Implementation.</b> The Panel recognizes Management's efforts to address social accountability during PBS 3 implementation. The Panel also appreciates that the establishment of the grievance redress mechanism and the implementation of the social accountability component of PBS 3 were fast-tracked in Gambella. The Panel understands and appreciates that, more recently, Management has recognized the issue of the operational interface, and is currently supporting a study on the interface between World Bank-funded and nationally-funded programs to ensure coherence in their implementation.</p> <p><b><i>It is the view of the Panel, that the lack of recognition and analysis, at appraisal, of the operational interface between PBS 3 and CDP, as required by the ORAF and described above, meant that the resulting risks were not adequately taken into account and properly managed and mitigated during PBS 3 implementation.</i></b></p>	<p><b>Comment:</b> Management thanks the Panel for recognizing efforts to fast-track GRM and Social Accountability in Gambella. In addition, the Project financed logistical support to help the EIO to fast-track the opening of a branch in Gambella. The EIO has also asked for, and the Project has agreed to support, the roll out of offices in other regions.</p> <p>The Panel relied primarily on JRIS Aide Memoires as evidence of risk management during supervision. In addition to the information captured in the Aide Memoires, it is important to note that a great deal of implementation support work has been undertaken including supervision missions, ongoing systems strengthening, and analytical efforts under the Managing for Results component (B3). It should also be noted that the Project held a pre-JRIS supervision mission to Gambella in April 2013. Team members participated continuously in the DAG working group on the CDP.</p> <p>Beyond these ongoing supervision activities, the Project has been catalytic in addressing transparency and social aspects. A great deal of detailed work has been undertaken to improve the linkages between social and financial transparency and accountability (FTA); this is covered in the</p>

No.	Findings	Comments/Actions
		<p>Ethiopia Social Accountability Steering Committee minutes. Such efforts not only promote citizen participation in budget decision making but also provide those who may be more reluctant to speak out publicly with a safe platform to express their views on budget priorities, thus increasing citizen voice and accountability.</p> <p>The debate between the Bank and the GoE on whether OP4.10 applied to Ethiopia was resolved in mid-2013 by accepting that the vast majority of Ethiopians met the requirements of OP4.10 and by applying the OP to historically disadvantaged groups. Following the agreement, the implementation team for PBS 3 carried out the ESAC, which would have been carried out before appraisal had an agreement been reached earlier.</p> <p>The findings from this consultation reinforced the importance of support to the decentralized systems used by government, particularly woreda systems, to implement safeguards for woreda-managed spending, despite the fact that PBS 3 itself did not trigger Bank safeguard policies. Management's analysis indicates that while Ethiopia's legal and policy framework for environmental and social safeguards is generally strong, there are shortcomings in implementation capacity. While other Bank supported operations have been working on improving national level capacity to implement safeguards, PBS has focused on the woreda level since PBS funds are utilized by woredas. To this end, PBS financed a woreda safeguards capacity assessment in the four Developing Regional States, and is following that up with preparation of an operational manual to guide implementation of safeguards at the woreda level. This approach is further supported by one of the initial findings of the study of the operational interface between Bank funded and nationally funded programs, which is that to minimize risks, management of the interface is best conducted at the woreda level.</p> <p>The Bank will replace its ongoing method of support to PBS Sub Program A (Block Grants), with a Program for Results operation. This will help ensure the Project is focused on a robust system of indicators for implementation progress. Supporting assessments for this operation will confirm the presence of an effective delivery system that meets acceptable technical, environmental and social capacity management and fiduciary principles.</p> <p><b>Actions:</b> The Bank team has been working on reducing systemic risks relating to environmental</p>

No.	Findings	Comments/Actions
		<p>and social safeguards, and access to GRM. Steps include:</p> <p>(a) continuing to build the capacity of woreda-level staff to implement Bank safeguard policies, including through a woreda level safeguard manual that can be used across the country;</p> <p>(b) recruiting a Senior Operations Specialist within the PBS secretariat to help implement the safeguard policies and provide continuous support to woreda-level staff;</p> <p>(c) expanding social accountability programs and strengthening the link between social accountability and work on financial transparency;</p> <p>(d) increasing citizen participation in budget decision making at woreda level;</p> <p>(e) supporting the effectiveness of the EIO through training, and opening new regional branches;</p> <p>(f) training grievance redress officers in woredas to become more effective; and</p> <p>(g) enhancing analytical efforts under the Managing for Results component.</p>
4.	<p><b>Application of Safeguards Policies.</b> The Panel finds that the World Bank operational policies and procedures do not exclude the application of safeguard policies in Investment Lending (IL) operations providing only for recurrent expenditures. <b><i>The Panel finds that to the extent that one or more safeguard policies are found to be relevant to the areas of operation of the proposed IL operation, Management should trigger and apply them.</i></b></p>	<p><b>Comment:</b> Management agrees that investment finance operations that the Bank finances are subject to the Bank's environmental and social safeguard policies. Projects are assessed against the Bank's safeguard policies in order to determine if these are applicable to address potential project related impacts. As with any project, Management adhered to the safeguard policies of the Bank in appraising PBS 3. In so doing, Management concluded that the safeguard policies were not applicable to the operations of PBS 3 (see discussion of special circumstances surrounding OP4.10 in Item 6 below).</p> <p>Management agrees with the Panel that the Bank's operational policies and procedures do not necessarily exclude the application of the safeguard policies to operations providing only for recurrent expenditures. As Management stated in the first Management Response, "In any Bank investment operation, the application of safeguards is calibrated in view of the potential environmental and social impacts of those operations. In the case of PBS 3, based on the design and nature of the support being provided, Management determined that these impacts justified a Category C rating."</p> <p>Nonetheless, for the Bank portfolio in Ethiopia as a whole, Management recognized the importance of building capacity at woreda level to ensure the</p>

No.	Findings	Comments/Actions
		<p>achievement of safeguard standards during design and implementation. To support this objective, PBS 3 includes significant capacity building interventions for safeguard implementation at woreda level, in order to ensure that capital developments undertaken at woreda level, including Commune Centers, despite not being financed by PBS 3 or the Bank, meet safeguards standards. For example, an Environmental and Social Impact Assessment capacity review is currently being undertaken in the Developing Regional States, including Gambella, as a major step towards achieving this objective.</p> <p><b>Action:</b> None required.</p>
5.	<p><b>Application of OP 4.12 on Involuntary Resettlement.</b> The Panel does not consider CDP a necessary activity to achieve the objectives of PBS 3. <b><i>The Panel finds that paragraph 4 of OP 4.12 is not applicable and that Management acted consistently with the provisions of OP/BP 4.12 by not triggering it.</i></b></p>	<p>Management acknowledges this finding of the Panel and agrees.</p>
6.	<p><b>Application of OP 4.10 on Indigenous Peoples.</b> The Panel found no evidence in Project documents that the functional equivalence approach was applied to PBS 3. In contrast, the PAD clearly noted that World Bank safeguard policies are not triggered as project financing is limited to recurrent expenditures for basic services. <b><i>The Panel finds that, barring the triggering of OP 4.10, Management should have adopted the “functional equivalence” approach in the design of PBS 3, which is centered on promoting access to basic services.</i></b></p> <p>The Panel notes that livelihoods, well-being and access to basic services, which are closely tied to the Anuak’s access to land and natural resources was not taken into account in the design of PBS 3, <b><i>in non-compliance with OP 4.10.</i></b></p>	<p><b>Comment:</b> All Bank operations in Ethiopia now routinely apply OP 4.10 where it is determined to be applicable. However, at the time of PBS 3 preparation, Management was in discussion with the GoE on how to apply OP4.10 in Ethiopia, in a manner consistent with the provisions of the country’s constitution. Management notes that it had informed the Board of this. In the meantime, during project preparation (January–May 2012), Management engaged in quality assurance meetings at which the issues of OP4.10 were discussed at length. Thus, while they were pursuing the policy dialogue on Indigenous Peoples in Ethiopia, Management and the GoE adopted an approach that was consistent with—or “functionally equivalent”—with the provisions of OP4.10, although that terminology was not used.</p> <p>The debate between the Bank and the GoE on whether OP4.10 applied to Ethiopia was resolved in mid-2013 by accepting that the vast majority of Ethiopians met the requirements of OP4.10 and by applying the OP to historically disadvantaged groups. This is in keeping with the Ethiopian constitution, which recognizes the Nations, Nationalities and Peoples of the country in terms that are highly congruent with the concepts used to define Indigenous Peoples in OP4.10.</p> <p>PBS 3 preparation, appraisal and implementation achieved functional equivalence to the provisions of OP4.10, based on five key features of the</p>



No.	Findings	Comments/Actions
		<p>policy: 1. free, prior and informed consultations leading to broad community support; 2. grievance redress; 3. mitigation of adverse impacts; 4. culturally appropriate benefit-sharing; and 5. monitoring and evaluation of the Project's impacts and benefits. An Enhanced Social Assessment and Consultation was carried out during 2014 for PBS 3, once agreement was reached with the GoE on application of OP4.10, which demonstrated that this approach has achieved the functional equivalent of those provisions of OP4.10. This finding has also been confirmed by a Poverty and Social Impact Analysis (PSIA), completed in April 2014.</p> <p>As part of its core design, PBS 3 seeks to promote free, prior and informed consultations among Ethiopia's nations, nationalities and peoples. Through the financial transparency and accountability sub-component and the social accountability program, it supports local consultations on improving service delivery, which have proven effective. Further, there have been specific efforts in the program to ensure that vulnerable groups are included in these citizen engagement efforts.</p> <p>Also as part of the PBS 3 effort to promote greater opportunities for citizen engagement, the operation includes efforts to provide improved grievance redress mechanisms (GRM). During implementation, there has been a focused effort to ensure these mechanisms have been set up in the woredas. In Gambella, a regional office of the Ombudsman has been established.</p> <p>Through the design and implementation of the fairness and equity principles, the PBS 3 operation has sought to mitigate any potential adverse impacts and to support culturally appropriate benefit sharing of the operation. The consultation process allows local communities the opportunity to focus on services that benefit them. In support of the effectiveness of that approach, the PSIA concluded that the program appears to be helping some of Ethiopia's historically disadvantaged areas and ethnic groups to catch up with the rest of the country. While per capita expenditures for basic services at the woreda level are broadly equal across Ethiopia, those woredas with the most disadvantaged population receive strikingly higher resource flows through the PBS program. Specifically, five majority-Anuak woredas are noteworthy for receiving the most public resources per person of all woredas in the nation. In keeping with the fairness and equity principles of PBS, per</p>

No.	Findings	Comments/Actions
		<p>capital program resource flows are lowest among the more developed, historically dominant regions.</p> <p>Finally, the PBS 3 operation supports extensive and regular monitoring and evaluation of project impacts and benefits. Beyond the above mentioned ESAC and PSIA and as expanded upon in Management's Response to the Request for Inspection, the PBS 3 program includes Sub Component B3 on Managing for Results, to ensure ongoing data verification, systems strengthening and dedicated analytical activities.</p> <p><b>Action:</b> Subsequent to the launch of PBS 3, the terms for application of OP4.10 were agreed between the Bank and GoE for all operations since July 2013. To ensure PBS 3 meets the standard set in this policy, an ESAC was undertaken. The findings of this ESAC show that PBS is in compliance with OP4.10.</p>
7.	<p><b>Agriculture and Livelihoods.</b> The Panel notes that access to services in the agriculture sector in Gambella, along with the possibility of achieving the higher level objectives of the Project (increasing agricultural productivity), was adversely affected by the CDP program as it was implemented.</p> <p>The Panel finds that, in accordance with Bank Policies, the operational interface between CDP and PBS should have been taken into account at the PBS project level, both during the appraisal and implementation phases, especially in a region such as Gambella where 60% of households, which are also PBS beneficiaries, were resettled as part of the Government's CDP. <b><i>The Panel finds that Management's approach has not enabled PBS to mitigate or manage the harms described in the Request for Inspection with respect to access and quality of basic services in the agricultural sector and livelihoods of affected people in Gambella.</i></b></p> <p>The Panel finds that, while monitoring was expected to follow the principle of effectiveness and results, the quality of services in Gambella was not in alignment with actual conditions on the ground. In particular, there is no indication that the agricultural extension services that are of paramount importance for the livelihood of rural populations, and especially indigenous groups was being monitored and aligned to deliver appropriate results for beneficiaries. <b><i>Since PBS 3 has begun implementation, three JRIS missions were undertaken, but</i></b></p>	<p><b>Comment:</b> Management's broader response on the operational interface is provided under Item 1 above.</p> <p>The scope of PBS 3 is clearly defined by the PDO, description and results matrix in the PAD. It was never proposed that PBS 3, on its own, could deliver improved agricultural performance or improved livelihoods, whether in Gambella or elsewhere. Rather PBS 3 helps to support capacity and institutional development that are a necessary condition for such improvement. The indicators in the results matrix relevant to agriculture and livelihoods, which demonstrate this, are:</p> <ul style="list-style-type: none"> <li>• Number of beneficiaries from agricultural extension services;</li> <li>• Number of development agents with specialization on agro-ecological zones and high value crops;</li> <li>• Strengthened MoA MIS (Ministry of Agriculture's Management Information System).</li> </ul> <p>The Reports or Aide Memoires from JRIS missions for PBS have focused on recording progress on the specific PDO indicators as defined in the PAD. As noted under item 3, these Aide Memoires provide only part of the picture of implementation efforts. A great deal of implementation support work is not covered in these Aide Memoires, including supervision missions and ongoing systems strengthening and analytical efforts under the Managing for Results component (B3).</p> <p>Moreover, the challenge of making progress on rural livelihoods in Ethiopia has been taken up by the Bank and Development Partners in many other</p>

No.	Findings	Comments/Actions
	<p><b><i>the resulting reports are silent on the issues noted above. The Panel finds that this is not consistent with the supervision provisions of the investment lending policy, OP/BP 10.00.</i></b></p>	<p>ways. Examples funded by the Bank include the Agricultural Growth Program; the Sustainable Land Management Program; the Productive Safety Nets Program; the Pastoral Community Development Program; the Regional Pastoral Livelihoods Resilience Program; knowledge work such as poverty mapping, studies on rural accessibility, and policy notes on well-being and ill-being dynamics in Ethiopia. Other examples are partnership engagements—including on rural economic development and food security, and the country level dialogue with GoE and Development Partners on how the CDP is implemented.</p> <p>Management recognizes that sustainable livelihoods for people in peripheral regions, such as Gambella, are an important issue, especially when those regions are also hosting significant numbers of displaced people. In Ethiopia, as in many other countries, such regions have not yet matched the economic progress at the center of the country. In this regard the Bank has been discussing with the African Union and others an initiative to promote economic integration between neighboring peripheries (e.g., Gambella and Upper Nile/Jonglei, South Sudan) and thus encourage sustainable economic convergence with their respective countries.</p> <p><b>Action:</b> The Bank is ready to explore to what extent the GoE 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 Community Development Project and the Agricultural Growth Program, and as necessary through a separate operation.</p>
8	<p><b>Financial Analysis. The Panel finds that Management did not comply with the requirements of OMS 2.20 and OP/BO 10.02 in the design and appraisal of PBS 3.</b> The Panel notes that the Bank's assertion that the funds can be tracked at the woreda level cannot be sustained. The Panel finds that, since PDO results indicators that directly address fiduciary risks were inadequate in the initial planning and subsequently have not been adjusted, <b><i>the supervision of those risks is not in compliance with Bank policy OP/BP 10.00.</i></b></p>	<p><b>Comment:</b> The Panel finding that Management did not comply with OMS2.20 and OP/BP10.02 in appraising financial capacities and risks for PBS 3 and that it did not adequately supervise the operation to manage these risks seems to have been based on information that was not complete.</p> <p>The Bank's approach to financial management under PBS 3 is based on achieving reasonable assurance about the uses to which the funds have been put, and the arrangements for recording and reporting on that use. This approach is consistent with, and has been made explicit in the Operational Policy and Bank Procedures on Investment Project Finance (OP/BP10.00), which clarifies that the Borrower must give reasonable assurance (OP/BP10.02—now retired—referred simply to “assurance”) that the funds provided are</p>

No.	Findings	Comments/Actions
		<p>used for the purposes for which they are granted. Further, in appraising a proposal for Bank funding, the financial management assessment considers, amongst other things, the degree to which reasonable records are maintained and financial reports produced, and whether there are reasonable controls over Project funds. This approach recognizes that one of the purposes of Bank engagement is to help improve the Borrower's capacity for financial management.</p> <p>The Panel correctly notes that Management paid attention to challenges in financial management through regular supervision missions. The March 2013 PBS Supervision Mission to Gambella had pointed out the issues of lag in completion of regional consolidated audit reports. This finding has been reflected in the Panel's report. The audit arrangements for PBS do not require consolidated regional audits to be delivered since project specific audit arrangements for PBS have been put in place that are managed by the Office of the Federal Auditor General. The PBS program audit which covers woreda and regional level audits in all regions including Gambella, is up to date. OFAG is separately working with the regional authorities to eliminate the backlog on their consolidated audit reports.</p> <p>More details are provided immediately below on two specific concerns raised by the Panel.</p> <p><b>Non-inclusion of a PDO Indicator for Zonal/Woreda PFM Committees</b></p> <p>This issue stems from a difference in judgment as to which PDO FM indicator would be best. The first FM indicator, chosen by the Bank team after careful reflection, supports strengthening the financial management information system to improve financial management by rolling out the IBEX Management system; the second directly supports the reduction of audit back-logs, a direct way to improve audit performance. The successful roll out of the IBEX system has greatly helped improve the quality of financial reporting across the country and strengthened internal controls and procedures. It covers budgeting, accounting, reporting and cash management. It also has helped the federal government and the Regions overcome the backlog of annual financial accounts. In Gambella, IBEX has helped the BoFED produce timely reports and strengthen its financial management systems. IBEX has been rolled out to 8 of the 14 woredas in Gambella during PBS 3 implementation. It is in the process of being rolled out to the remaining six, while</p>

No.	Findings	Comments/Actions
		<p>solutions are being found to infrastructure constraints such as the lack of electricity.</p> <p>The other PDO level indicator on improving audit coverage helped improve audit coverage of the budget at the Federal level from 51 to 100 percent (in FY15) and regional level from 30 to 45 percent (for FY15). While Gambella remains one of the weakest regional audit offices in the country, there is noticeable improvement there in the performance of external audit. Management is therefore of the view that the PDO indicators were appropriate and met the requirements of OP/BP 10.00. All of the risk mitigation measures listed were mentioned in several places in the PAD for PBS 3 and also in the Management Response to the Panel that was provided in November 2012, including the templates used for reporting and monitoring.</p> <p>Under OP/BP10.02 the Bank requires the borrower to maintain financial arrangements that are acceptable to the Bank and provide assurance that the proceeds of the loan are used for the purpose for which the loan was granted. In addition it requires the borrower to undertake appropriate measures, including capacity strengthening, to mitigate risks posed by weaknesses that are identified. The PAD for PBS 3 clearly and candidly identified the risks as well as the mitigation measures, which were found to be adequate at design and implementation. For example, to address the issue of institutional capacity building, twenty accountants and IT specialists were recruited under the Project to provide support to Gambella BoFED and the woredas for systems strengthening and for ensuring timely and accurate reporting. They are still in place and are helping to build capacity. Similarly, to address weak internal audit capacity, the PAD required that two internal auditors be recruited at the Ministry of Finance and Economic Development (MoFED) and one internal auditor be recruited in Gambella. This was done. The contract staff provide follow up and capacity building to the 136 internal auditors that are in place in Gambella. Regarding weak external audit capacity, the arrangement instituted during PBS 2 was continued. The OFAG conducts quarterly Continuous Audits (CA) in Gambella. CA reports are forwarded to MoFED quarterly. On the basis of these reports, an action plan is drawn up to rectify the weaknesses identified. The action plan is regularly monitored by MoFED, BoFED and the Bank. Findings from CA reports are summarized and submitted by OFAG to the Federal Parliament. In addition, OFAG conducts an Annual Audit of</p>

No.	Findings	Comments/Actions
		<p>PBS 3, which includes transaction checking at the regional level. Annual Audit reports are up to date and so far all audit reports have been unqualified.</p> <p>Under the Financing Agreement that the Bank has signed with the GoE project specific audits need to be provided in a timely manner and be of the required quality. This condition has been fully met. There is therefore no question of invoking remedies in this case. There is however a backlog regarding the audit of the consolidated account of the regional government by the regional Auditor General. The Bank is following up with OFAG and the Gambella regional auditor general on this issue and the backlog is being reduced. Management is therefore of the view that the requirements of OP/BP 10.02 were met and that adequate remedial measures were taken by the borrower to ensure that funds are used for their intended purpose.</p> <p>It was not appropriate to use Zone and Woreda PFM Committees as an indicator since Zones do not exist in all regions of Ethiopia and PFM Committees at the Woreda level are a recent initiative that is still in the process of being strengthened and capacitated.</p> <p><b>Lack of Earmarking of Block Grants Increases the Risk of Diversion</b></p> <p>Non-earmarking is considered best practice among decentralization specialists around the world as it increases local decision making and increases accountability to citizens, who find it easier to raise issues with local authorities than with a distant government. For such grants in Ethiopia, local governments need to meet service delivery standards and targets set by the national government and monitored by regional bureaus in the decentralized sectors.</p> <p>The process for tracking of funds under PBS 3 was described in detail in the PAD as well as the earlier Management Response. Budgets are prepared and proclaimed in a timely manner at all levels of government, which is another strength of the country's financial management system. One of the core principles of the PBS program from the time it was instituted was to check "additionality" of resources as well as fairness. Under the fairness principle resource flows from the federal government to the regions are tracked as well as resource flows from regions to woredas. Transfers are in compliance with the fairness principle only if they are rule based and delivered in a timely manner (PAD, para 3.7 page 13). Due to this, at</p>

No.	Findings	Comments/Actions
		<p>every semi-annual JRIS meeting, resource flows are tracked to the regions and to 1,000 woredas, including the 14 (1.39 percent of the total) in Gambella. Overall, recurrent spending accounts for around 85-90 percent of woreda level expenditures. In Gambella this is slightly higher at 95 percent, almost all of it going for payroll. Transaction testing at the woreda level, not just in Gambella but across the country, has shown that payroll systems are robust and that the challenge of ghost workers is not a major issue. Payroll audits at the woreda level have been conducted in the past for PBS and other projects, by entities such as the European Court of Auditors, global firms such as Deloitte, private audit firms in Ethiopia, OFAG and regional auditor's offices, and these have confirmed the fact that the payroll procedures and system are robust. CAs constantly assess the authenticity of the payroll system and no issues have been brought to light. The Management Response to the Request for Inspection annexed the template for the IFR, which showed that every region is required to report by woreda on the payroll and operating expenses, and these are the eligible expenses that can be funded by the Bank. Regular Bank JRIS Missions undertake transaction testing at the woreda level and track expenditures. There is therefore a well-established and well-functioning system for tracking expenditures at the woreda level.</p> <p><b>Actions:</b> The Bank team has been working on reducing systemic risks relating to Financial Management. Steps include:</p> <ul style="list-style-type: none"> <li>(a) Financial system strengthening programs specific to the PBS will continue, including completing the roll-out of the IBEX management system to all woredas;</li> <li>(b) Support for system strengthening will be supplemented through a stand-alone Public Financial Management project;</li> <li>(c) An action plan will be prepared by the OFAG to strengthen all regional audit offices;</li> <li>(d) The audit backlog in Gambella will be tackled directly, with a specific timeline and benchmarks for doing so; and</li> <li>(e) There will be annual benchmarking of public financial management performance for all woredas.</li> </ul>
9.	<p><b>Human Resources.</b> The Panel notes that it does not have sufficient information to draw a firm conclusion on this issue but it again notes how the <i>operational interface between the CDP and PBS, and mutual impacts affecting the achievement of results under</i></p>	<p><b>Comment:</b> Management's broader response on the operational interface is provided under Item 1 above.</p> <p>It is commonplace for government officials at the local level, across the world, to play multiple roles</p>

No.	Findings	Comments/Actions
	<p><b><i>PBS, were not adequately considered at appraisal or during implementation.</i></b></p>	<p>in discharging government policy. The fact, therefore, that this is the case for those with responsibility for basic service provision, part of whose salary is being funded through block grants under PBS 3, is unremarkable. This situation also arises in many other projects or programs the Bank supports. It would be neither feasible nor desirable to pursue an arrangement under which all officials whose functions are being partly supported by Bank finance are required to work exclusively on those functions. Such an arrangement would be highly dysfunctional and inefficient and burden the borrower with fragmented administration and additional costs. Moreover, it would run counter to the ongoing international efforts and agreements for Aid Effectiveness.</p> <p><b>Action.</b> The Bank and other Development Partners are interested to better understand how effectively staff funded by PBS 3 are used. To this end a number of surveys are underway including in the agricultural, education and health sectors. These surveys will help the Bank ensure staff partly funded by PBS are employed as intended, and may help identify issues to watch for when preparing future projects.</p>



## Annex 2: Revised Results Framework under PBS 3 Restructuring December 2013

HIGHER LEVEL OBJECTIVE: Expanding and improving quality of basic services The program defines basic services as education, health, agriculture, water supply and sanitation and rural roads												
Higher level results indicators:		Core	UOM	Current	Target values					Frequen cy	Data Source/ Method	Responsibility for data collection
				Baseline (FY11)	FY13	FY14	FY15	FY16	FY17			
EDUCATION												
1	Net primary enrolment rate for grade 5-8			47.3	74.0	80.0	80.0	80.0	80.0	Annual	EMIS	MoE
2	Gender parity index (grades 5-8)			0.99	0.98	0.99	1.00	1.00	1.00	Annual	EMIS	MoE
HEALTH												
3a	Immunization: Proportion of children vaccinated Penta-3		%	84.7	89.0	94.0	96.0	97.0	98.0	Annual	HMIS	MoH
3b.	Immunization: Proportion of children vaccinated Penta-3 <sup>15</sup>		%	57		62		65		Bi Annual FY14 and 16	Mini DHS/D HS	CSA
4	Pregnant women received antenatal care during first visit to health provider	X	No.	2403088	2426476	2484945	2514180	2550000	2600000	Annual	HMIS	MoH
WATER & SANITATION												
Increased access to potable water supply coverage:												
5a	Rural water coverage within 1.5km radius		%	48.9	80.0	86.0	92.0	93.0	95.0	Annual	Adminis trative Data: GTP Target	MoWE
5b	Rural water coverage within 1.5km radius			48.5	61.0	66.0	71.0	75.0	81.0	Annual	MOWE MIS	MoWE
6a	Proportion of households using a latrine		%	20.0			62.0		58	Annual	DHS/Mi ni-DHS	CSA
6b	Proportion of households using a latrine			62.0	66.0	68.0	70.0	72.0	74.0	Annual	Survey Data	DHS
AGRICULTURE												
7	Increased agricultural activity: major food crops productivity		Quinta l/ha	16.5	19.2	20.5	22	22	22	Annual	Ag Sample Survey/ Admin system	MoA/CSA
ROADS												

<sup>15</sup> Children vaccinated at any time before survey

*Management Report and Recommendation*

8	Average time to nearest all-weather road		Hours	3.5	2	1.6	1.5	1.4	1.3	Annual	Reports from RSDP	ERA
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**PROJECT DEVELOPMENT OBJECTIVE:**

To 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 sub-national governments.

PDO Level result indicators		Core	UOM	Current	Target values					Frequency	Data Source/ Method	Responsibility for data collection
				Baseline (FY11)	FY13	FY14	FY15	FY16	FY17			
EDUCATION												
1a	Student:Teacher ratio (Grades 5-8) (Staffing)		%	51.0	40.6	45.0	43.5	42.0	41.0	Annual	EMIS	MoE
1b	Proportion of qualified primary school teachers (Staffing) <sup>16</sup>		%	52.7	72.0	83.0	95.0	96.0	97.0	Annual	EMIS:	MoE
HEALTH												
2	Ratio of health extension workers to population (Staffing) <sup>17</sup>		%	1:2144.0	1:2500	1:2500	1:2500	1:2500	1:2500	Annual	HMIS:	MoH
AGRICULTURE												
3	Agriculture extension services beneficiaries (Direct beneficiaries)		No.	9,044,000	11,400,000	12,800,000	14,600,000	14,800,000	14,900,000	Annual	MoA reports	MoA
WATER												
4	Reduced non-functioning water supply schemes (Operations)		%	25.5	14	12	10	10	10	Annual	Annual	MoWE reports
ROADS												
5	Roads in fair and good condition	X	%	82.0	84.6	85.9	86.7	87.0	88.0	Annual	ERA MIS:	ERA
SOCIAL ACCOUNTABILITY												
6	Citizens who are informed about Woreda budget		%	19.0	21.0	23.0	25.0	25.0	25.0	Annual	Survey report	EMCP
7	Citizens who report that Woreda officials have actively sought the views of	X	%	48.0	50.0	50.0	55.0	55.0	55.0	Annual	Survey report	MA

<sup>16</sup> Teachers with at least a certificate level qualification

<sup>17</sup> Based on total number of HEWs deployed at the beginning of the fiscal year

	people in their kebele on improving quality of basic services											
FINANCIAL MANAGEMENT 8	Number of woredas producing IBEX and IFMIS and based financial management reports	X	No.	Na	734	800	900	900	900	Annual	MoFED EMCP	MoFED

INTERMEDIATE RESULT 1: Improved availability of qualified staff and operational resources for delivery of basic services												
Intermediate result indicators		Core	UOM	Current Baseline (FY11)	Target values					Frequency	Data Source/ Method	Responsibility for data collection
					FY13	FY14	FY15	FY16	FY17			
1	Health extension workers		No.	38,298	34,000	36,000	40,000	40,000	40,000	Annual	Adminis trative data	FMOH
2	Qualified primary school teachers		No.	141,696	175,000	215,000	245,000	275,000	300,000	Annual	Adminis trative data	MoE
3	Woreda road desks with appropriate staff		No.	155	390	470	560	600	650	Annual	ERA MIS	ERA
4	Development agents with specialization on Agro-ecological zones and high value crops		No.	2,102	3,201	3,800	4,600	5,000	5,000	Annual	MoA MIS	MoA

INTERMEDIATE RESULT 2 Improved transparency and fiduciary assurance regarding the use of public funds												
Intermediate result indicators		Core	UOM	Current Baseline (FY11)	Target values					Frequency	Data Source/ Method	Responsibility for data collection
					FY13	FY14	FY15	FY16	FY17			
Transparency												
5	Woredas that post refined and simplified budget and expenditure template to the public		No.	70	80	90	100	100	100	Annual	Survey report	EMCP/ MoFED
6	Basic service units that post the standardized service delivery template		No.	25	30	40	50	60	70	Annual	Survey report	EMCP/ MoFED
Audit coverage												

*Management Report and Recommendation*

7a	ORAG		%	30	35	40	45	50	60	Annual	Audit report	EMCP/ MoFED/ ORAG
7b	OFAG		%	90	92	95	97	100	100	Annual	Audit report	EMCP/ MoFED/ ORAG
7c	Woredas that implemented prior period Audit recommendations		%	5	20	25	30	40	60	Annual		
Procurement												
8a	Number of woredas staffed with procurement specialist with regional procurement training and with clear career path		No.	5	50	100	300	400	500	Annual		
8b	Woredas that post all procurement award decisions		No.	5	200	400	600	700	900	Annual		

INTERMEDIATE RESULT 3 Improved citizens' engagement on quality of basic services delivery												
Intermediate result indicators		Core	UOM	Current	Target values					Frequency	Data Source/ Method	Responsibility for data collection
				Baseline (FY11)	FY13	FY14	FY15	FY16	FY17			
9	Woredas where PBS Social Accountability Implementing Partners (SAIP) facilitate the use of Social Accountability tools		No.	50	100	150	175	320	400	Annual	Survey	MA
10	SAIP Woredas that have developed joint action plans for service quality improvement based on interface meetings between service users and providers		No.	NA	70	120	150	300	400	Annual	Survey	MA
11	Regions with functioning GRMs consistent with best international practice		No.	2	5	7	9	11	11	Annual	Survey	EMCP/COPC U/Federal Ombudsman
12	Number of regions preparing and adopting standardized manual and		No.	3	6	8	11	11	11	Annual		

	guidelines Grievance Redress Mechanisms											
13	Regions submit the PBS the quarterly and annual Interim Financial Reports (IFR) to COPCU without major inconsistencies		No.	4	7	8	11	11	11	Annual	Continuous audit	COPCU

## INTERMEDIATE RESULT 4

Strengthened M&amp;E systems at central, federal and sub-national levels

Intermediate result indicators		Core	UOM	Current	Target values					Frequency	Data Source/ Method	Responsibility for data collection
				Baseline (FY11)	FY13	FY14	FY15	FY16	FY17			
15	Number of PBS sectors with their indicators assessed through implementation of EDQAF		No.	2	2	2	2	2	2	Annual	EDQAF reports	CSA
16	Woredas that rolled out the Education EMIS		No.	0	300	600	900	900	900	Annual	EMIS project implementation report	MoE

## Improved community health management information systems

17	Proportion of health centers implementing the HMIS		No.	72	80	90	100	100	100	Annual	HMIS	MoH
18	Woredas that rolled out the WASH MIS		No.	50	300	600	900	900	900	Annual	WASH MIS	MoWE
19	Number of regions implementing MOA MIS			0	4	8	11	11	11	Annual	MoA MIS	MoA
20	Number of regions implementing ERA MIS			0	4	8	11	11	11	Annual	ERA MIS	ERA



### **ANNEX 3.**

#### **Correspondence between the Development Assistance Group and the Government of Ethiopia**







**H.E. Dr. Shiferaw Teklemariam**, Minister  
Ministry of Federal Affairs

**H.E. Dr. Abraham Tekeste**, State Minister  
Ministry of Finance and Economic Development

Ref: DAG/OU/3/2014  
Addis Ababa, 18 March 2014

**Subject:** DAG Findings and Recommendations on CDP and South Omo

Your Excellencies,

On behalf of the Development Assistance Group (DAG), I am writing to report back to you on the missions DAG members have undertaken to visit the Commune Development Programme (CDP) and relocation in South Omo over the past two years. This letter summarizes our findings and recommendations. We hope it will be helpful to you and your colleagues, and serve as basis for further dialogue between the Government of Ethiopia (GoE) and the DAG.

The DAG appreciates the Government of Ethiopia's invitation to independently monitor the CDP and other forms of relocation, and your responses to date to our findings and recommendations. The Government of Ethiopia has stressed its commitment to equitable development throughout Ethiopia, with the objective of the CDP being the improved provision of services to scattered and hard-to-reach communities, with historically lower development outcomes, improved livelihoods and good governance. These are important elements for Ethiopia's development, economic growth and vision of becoming a Middle Income Country.

Since learning about the CDP, in late 2010, the DAG has emphasised the importance of following international good practice on resettlement, from design and consultation through to implementation, monitoring, evaluation, grievance and redress mechanisms. This is important for the protection of people's rights, to ensure the achievement of the intended outcomes, and for the sustainability of wider development efforts, and the reduction in fragilities.

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In reviewing the CDP, the DAG has found that the program is designed to operate under the following provisions:

- Ethiopia's constitutional provisions for voluntary social and economic development activity and compensation in the case of being relocated from the place of residence by economic development programmes.
- Ethiopia's Rural Development Policy and Strategy commitment to voluntary resettlement, settlement in a manner that will promote sustainable natural resource management, retention of user-rights on plots of land in original localities until such time as they become reasonably self-sufficient, and adequate compensation to farmers from whom land is taken.
- Ethiopia's Expropriation Law, which sets out compensation provisions where resettlement is required for economic development purposes.
- The GoE's own 'basic ingredients' for the CDP, which were based on the international good practice principles, including any resettlement being voluntary.

To date, the DAG has visited over 65 villages in Gambella, Benishangul-Gumuz, Afar, Somali under the CDP and South Omo where relocation is also taking place. Following a common Terms of Reference, we have met with Government officials at regional and woreda levels, Government staff such as development agents, teachers and health extension workers, and with a wide range of women and men, including those who had moved or were planning to move to both new and existing villages, as well as those choosing to stay in their original villages.

We found that the implementation of the CDP has improved over time, and that the GoE has increasingly provided information to communities about resettlement in terms of timing and objectives. In areas where the program has been in place for some time, the quality of basic services was, even if delayed in many places, found to be the same, as good as or better than it had been where they lived previously, with people often saying that they preferred the new village, even when they had not initially wanted to move. In terms of livelihoods, it was too early to tell if these would improve, but where irrigated land and/or improved extension services were being made available, this potential was there. However, there is a need to ensure that people who are moving to areas with different livelihoods practices get the necessary extension and education services to enable them to take advantage of new livelihoods opportunities.

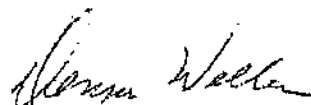
Missions by the DAG to monitor implementation of the CDP did hear some specific complaints which gave them cause for concern, including some respondents in two communities in Benshangul-Gumuz visited in September 2012 who mentioned that the threat of force had been implied by officials if they did not move; and reports of allegations of abuse on our first visit to South Omo in January 2012. However, we did not find reports of systematic or widespread human rights abuses. There were concerns over the quality of consultation, the quality of construction of public services, grievance redress mechanisms and the speed, scale and sequencing of implementation.

Based on our missions, the DAG has 6 key recommendations for how the CDP and any other future relocation/resettlement programmes can be improved in the future. They are:

1. GoE to ensure that regions and woredas have sufficient capacity and knowledge and clear mandates to implement programs which follow international good practices for voluntary movement, including information and consultation at all stages of the decision-making, design and planning for all affected and host communities and the public in concerned regions and woredas.
2. GoE to ensure that all viable options and alternatives are considered first before relocating communities.
3. GoE to ensure the implementation of infrastructure, basic social services and other support services is put in place before populations move from their current place of residence to new sites. Where people have moved in advance of adequate basic services being established, GoE continues with its efforts to ensure an acceptable standard of services to improve, restore, or maintain levels of accessibility.
4. GoE to ensure that the people who move are assisted in their efforts to improve their livelihoods and standards of living or [at least] to restore them, in real terms, to at least pre-movement levels. Possible disruption to existing livelihoods and coping mechanisms must be analysed and measures put in place to ensure these are minimized.
5. Mechanisms for monitoring, safeguards, appeals and redress put in place, including the establishment of clear internal monitoring of the implementation of the best practice guidelines and independent grievance redress mechanisms in all regions.
6. Allegations of abuse in relation to CDP/resettlement are investigated and followed up appropriately.

We would welcome a response to the recommendations outlined in this letter. In particular, we would be grateful for more information on how you have investigated and appropriately followed-up on allegations of abuse in the CDP programme areas and South Omo that have been brought to the attention of regional or federal officials, and any measures identified or implemented to improve the areas where there have been problems to date (quality of consultation, quality of risk assessment and mitigation, readiness or extent of services and livelihood support, availability of independent grievance redress mechanism).

We look forward to hearing from you. Please accept, Your Excellencies, the assurance of our highest consideration.



Dennis Weller  
DAG Co-chair  
USAID Mission Director



Guang Z. Chen  
DAG Co-chair  
World Bank Country Director

**Mr. Guang Z. Chen; DAG Co-chair; World Bank Country Director**  
**Mr. Dennis Weller; DAG Co-chair; USAID Mission Director**  
**Donor Assistance Group (DAG) Ethiopia**  
**Addis Ababa**

**Subject: - Reply to DAG Findings and Recommendations on CDP and South Omo**  
**(DAG/OU/3/2014A, 18 March 2014)**

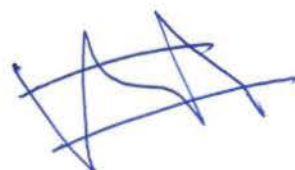
**Dears DAG Ethiopia Co-Chairs,**

We use this opportunity to extend our deepest appreciation to the DAG Ethiopia for its support to the development endeavours of Ethiopia. We would like to use this opportunity also to reiterate the government's commitment to live up to the expectations of the Constitution, as well as aspiration and vision of our people of becoming a middle income country as espoused in the Growth and Transformation Plan (GTP).

On behalf of the Ministry of Federal Affairs and the Ministry of Finance and Economic Development, we would like to extend our deepest appreciation to the DAG Ethiopia for presenting the findings of its mission and for the continued constructive engagement in the Commune Development Program of Ethiopia.

Many of the DAG's findings and recommendations are consistent with how the government assesses the circumstances and with what the government is already doing. However we would like also to clarify and reflect on the following points.

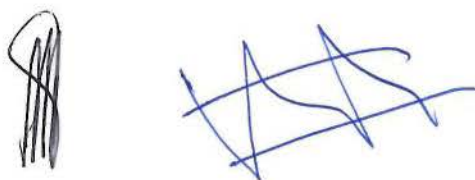
1. The Commune Development Programme (CDP) is planned and executed by respective regions and local authorities. The Government concurs with the DAG's findings that the Program is designed to operate under the provisions of the Ethiopian Constitution and key public policies and strategies as well as good practice guidelines. Key aspects of these provisions concern voluntary movement and consent of people, community participation, provision of information and practice of consultation in the decision making process of the CDP. The Program thus far has been guided by these key principles. Participation in the commune program has been fully voluntary. Regional and local authorities started the process with rounds of consultations informing people about the rationale and objectives of the program as well as the benefits and challenges. This constitutional provision has to be strictly pursued. The decision is then left entirely to the households. People who decide to move to the new sites retain full rights to return to their old places if they desire to do so.





Those who chose not to participate in the commune program face no discrimination in access to services or otherwise.

- 1.1 Communities always participate throughout the decision making process in the planning and implementation of the program, risk assessment and mitigation, selection of sites, delivery of services and facilities, management of some of the facilities like water points. The government has undertaken various assessments including numerous visits to the sites to monitor the observance of these key provisions. The findings show that regions and local authorities have clearly specified their intent to observe these guiding principles in their plans and have exerted their utmost efforts to execute the program in accordance with these guiding provisions.
- 1.2 The Government remains committed to continue ensuring adherence to these principles. One of the challenges encountered in the process of executing the CDP is limited delivery capacity particularly at the local level. A number of measures are being undertaken to ease this problem. The investments in infrastructure, social services, institution building and the participatory process of implementation of the CDP have themselves contributed to improved capacities. Yet the Government recognises that institution and capacity building is a long-term process, and hence agrees to the recommendation to further strengthen the capacities of Regions and Weredas to enhance the efficiency and effectiveness of the Programme. While capacity building remains essentially the responsibility of the Regions and Weredas themselves, the Federal Government has also undergoing programs that support such regional and local initiatives including the technical support coordinated by the Inter-Ministerial Special Development Support Board and the Ministry of Federal Affairs.
2. The CDP is only one among several approaches pursued to improve the livelihoods, expand basic services and build grassroots institutions of communities. This is clearly outlined in Agricultural and Rural Development Policy and Strategy, as well as in the GTP. So communities are given the opportunity to consider any viable options and alternatives including continuing with their existing systems. Accordingly there are communities who chose to stay in their original place without facing any retribution or discrimination in access to services. Households are also given the option to consider participating in the CDP as one feasible means to realise their aspirations for improved livelihoods and better access to services. We consider the CDP as an important means to improved livelihood and provision of better services and not an end in itself. Hence communities are only given the information to consider the significance of participating in the program. And it is only when households voluntarily decide to move that they are relocated to new settlements. The strategic objective of the CDP is to realise the aspirations of these historically disadvantaged communities for equitable and accelerated development as the rest of their fellow compatriots. Thus the

Two handwritten signatures in blue ink. The signature on the left is a stylized, vertical mark. The signature on the right is a more complex, horizontal mark with multiple loops and strokes.



Government remains committed to continue ensuring that communities are given all viable options and alternatives before they are relocated.


3. The provision of quality basic services and infrastructure to citizens is one of the key objectives of the GTP. This also stands out among our priorities in our development cooperation with the DAG. So it is very essential that we ensure access to services and infrastructure to communities in their new areas of settlement even under very difficult circumstances. The Ethiopian Government wishes to use this opportunity to highlight some of the services and infrastructure delivered in association with CDP over the last three years. In most of the CDP sites the most critical service concerns access to safe drinking water. A total of about 1473 ground water points were drilled for safe drinking water for communities over the last three years. In addition, 459 health centers and 583 elementary schools were constructed in CDP sites. About 150 grain grinding mills are also installed throughout all the CDP sites. Moreover a total of 325 animal health centers and 375 farmers/Pastoralists training centers have been established.
- 3.1 To make these facilities functional, local authorities and regional government have recruited and deployed teachers, health extension workers, and agricultural extension workers. As a result, communities in CDP sites are enjoying better access to basic services of water supply, education and health. These investments have also ensured communities access to facilities like animal health clinics, skill training centers and grain mills that are essential for sustainably improving livelihoods of communities. A number of monitoring and evaluation missions including DAG missions have confirmed the improvements in access to basic services and infrastructure. A study commissioned and published by the Ethiopian Human Rights Commission (EHRC) invariably verified the same. The Ethiopian Ombudsman Institution (EOI) has also undertaken field missions to CDP sites in Benishangul-Gumuz, Gambella and South Omo and confirmed improvements in access to basic services and infrastructure in these areas. Respective regional governments also regularly monitor the progress in service delivery in these areas. Members of Federal Parliament and federal government officials have also undertaken field missions to some of these areas and recognised the progress made in the delivery of basic services and infrastructure.
- 3.2 The government recognises the challenges particularly at the beginning of the program in the delivery of infrastructure and services on time and to the required standard in some of the CDP sites. The challenges mainly arise from the objective circumstances of limited delivery capacity and access to infrastructure in these areas. Consequently as the DAG missions have observed, there was initially a challenge in effectively sequencing and delivering the basic services and other infrastructures emanating from inaccessibility of these areas, and limited delivery capacities particularly in these areas. The regional and local governments as well as the communities have now learnt a lesson from their own experiences. In addition, as a result





of the interventions delivery capacities of local authorities and the private sector have improved. Where there are gaps, the regional and local governments together with the communities are continuing with their efforts to ensure a better access and standard of services. Thus, the government is now in a better position to ensure better sequencing and delivery of basic services and infrastructure such that access and standard of services and infrastructure will continue to improve in the CDP areas.

4. The Government fully agrees with the DAG recommendation that livelihoods and standards of living should be improved as a result of the CDP intervention. The overarching objective of the agricultural and rural development policy and indeed the CDP is sustainably improving the livelihood and standard of living of communities. Accordingly, in addition to the delivery of basic social services and infrastructure, the CDP encompasses measures that help improve productivity and sustainable income of communities. For instance, the government has distributed 432,754 different types of agricultural hand tools and 5195 water pump generators to support households increase agricultural production and productivity. To ease their burden and improve the productivity of women, 150 grain mills and 1473 water facilities are installed throughout all the CDP sites. To improve the productivity of livestock and hence also income of pastoralists, a total of 325 animal health centers have been established, while development agents are also deployed to support pastoralists in improving the productivity of their livestock and income. To minimise possible disruptions to existing livelihoods, communities are supported by the 375 farmers training centers and extensions agents deployed throughout the CDP centers. In South Omo, the regional government has established a project office based in Hana town (Selemago Wereda) specifically to support the provision of agriculture and health extension services and coordinate the delivery of social services. The project office is fully financed by the regional government. In addition, the communities in South Omo Zone are also supported by the regional Pastoralist Bureau, which is essentially established to support pastoralists in South Omo and Bench-Maji Zones, Southern Nations Nationalities & Peoples Region. In many CDP sites, communities are trained and supported to engage in small irrigation schemes. In others, household are supported as per their choices to engage in off-farm initiatives, out grower schemes and diverse agricultural practices. As confirmed by various field missions incomes and livelihood of communities have started to improve as a result of the interventions. Of course the government recognises that improving livelihoods and standard of living is a long-term process. Thus the government will ensure that the ongoing efforts are consolidated such that livelihoods and standard of living of communities sustainably improve and transform for the better.
5. Accountability and rule of law are pillars of our good governance program. The government's commitment to ensure accountability and rule of law are also clearly reflected in the GTP and the various measures taken so far to strengthen institutions. In addition, the






adherence to good practice guidelines is closely monitored at various levels by different institutions. The government recognises that the governance of the implementation of the CDP is as important as the objectives of the program. Thus the government has made it very clear that any deviations from these key principles in the implementation of the program are not acceptable and will trigger measures for ensuring responsibility and accountability.

5.1 These key provisions of the good governance program and the good practice guidelines are supported by putting in place mechanisms for monitoring, safeguards, grievance appeals and redresses. There are several administrative arrangements that monitor and take corrective measures to ensure adherence to good practice guidelines and that serve as grievance appeals and redress institutions. There are steering committees at regional, Zonal and Wereda levels that monitor the program including through field missions and regular consultations with communities. In addition to the Wereda and Zonal officials, these missions and consultations are often also attended by regional presidents and/or vice presidents. It is very important to note also that all government office in the regions have established a system for grievance redress mechanisms (GRM) so that citizens can submit their grievance more easily and quickly before appealing to the EOI. Thus GRMs desks have been established in various offices. As reported in the GTP 2013 Annual Progress Report (APR), the EOI has been strengthening the GRM through systems development and provision of training programs to these GRMs desks. The 2013 GTP APR also describes the EOI work in creating awareness on the significance and available mechanism of GRM among government officials and employees, legislators and communities. The Inter-ministerial Special Development Support Board in collaboration with respective regions has also been closely monitoring the implementation of the program to ensure adherence to good practice guidelines, accountability and rule of law.

5.2 The implementation of the CDP is also regularly and closely monitored by institutions outside the executive organ of the government. The relevant Standing Committees from the House of Peoples Representatives (Parliament) have been monitoring the CDP progress and process against established good practice guidelines. The EHRC, the EOI, and the Social Justice Offices at the community level have all been giving due attention to monitoring the process and progress of the program to ensure the functioning of the appeal and grievance redress mechanisms, and observance of good governance principles including adherence to good practice guidelines. The EOI has for instance established six regional offices including one in Gambella to ensure better access to grievance redress mechanisms. The EOI is being supported through the PBS so as to strengthen further the existing system of independent appeal and grievance redress mechanisms. It is reported that the EOI has undertaken field missions to Benishangul-Gumuz, Gambella and South Omo CDP sites and consulted with the communities and authorities at all levels as part of its effort to strengthen the mechanisms for independent GRM.





5.3 Clearly the establishment of the GRMs is not sufficient to address malpractices. The government recognises that communities should be empowered to actively participate in the process. The EOI and different government organs have been undertaking extensive awareness creation and training programs to communities on citizens' rights and responsibilities, as well as the available mechanism for appeal and grievance redresses including in the CDP areas. The government is implementing a large scale social accountability program throughout the country supporting civil society organizations to mobilise communities to more actively engage in their local governance affairs. Again the government is cognizant of the fact that these all initiatives of grievance redress and accountability mechanisms have to be enhanced further. The government reiterates its commitment to continue with its efforts to strengthen the monitoring, safeguards, appeals and redress mechanisms so as to ensure the enforcement of good practice guidelines and independent GRMs across the country.

6. In addition to establishing the mechanisms and institutional arrangements described above to ensure enforcement of the Constitutional provisions, principles and objectives of public policies including good practice guidelines, the government has been committed to investigate allegations of abuse and accordingly take appropriate actions. The government has been closely monitoring the CDP and engaging communities regularly to investigate for any abuses. Likewise Members of Parliament have been monitoring developments in the CDP very closely for any abuses of human rights. The government has hitherto found no credible evidence on any of the allegations of abuse of human rights of citizens in the CDP areas. The independent organs of the EOI and the EHRC have also been monitoring developments in the CDP areas and have undertaken investigation on reports of allegations. It is recalled that the EOI conducted an investigation on the Gambella CDP last year. The investigation report was shared with DAG Ethiopia. It is reported that the EOI has undertaken field missions to Benishangul-Gumuz, and Gambella CDP sites and consulted with the communities and authorities at all levels. The EOI has undertaken similar field missions in South Omo (Selamago Wereda Mender 1, 2, 3, and Benatsemay Wereda Gishima Mender) and organised consultations with local communities. The government found no reports of human rights abuses from any of the investigation and monitoring reports of the EOI and EHRC.

6.1 Some of the investigations by the government and the independent organs have however found some problems associated with readiness, functionality and quality of basic services and livelihood supports in some areas. The regional and local governments took these findings very seriously and are rectifying the problems. How regional and local governments in partnership with communities and the federal government are trying to address these challenges is already described above and is not repeated here.






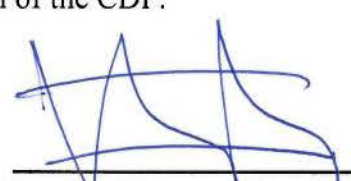
6.2 But the investigations on allegations of the existence of human rights abuse in relation to CDP reveal that these allegations are unfounded. These unfounded allegations of human rights abuses are largely politically motivated to derail Ethiopia's widely recognised achievements in development and good governance, and the strong partnership forged with DAG over the years. The government believes that both the government and DAG have responsibilities to make sure that this strong and exemplary partnership built over the years is not derailed by unfounded and politically motivated allegations. Yet the government remains committed and vigilant to immediately and rigorously investigate reports of abuse of human rights and take appropriate actions.

7. In sum, early indicators of the outcomes of the CDP show encouraging results. The program is strengthening organised local accountability system and is giving more voice to communities in the governance of their local affairs. The programs is creating a more fertile ground for direct community participation, strengthened rule of law, and deepening of good governance and democratization processes. These improvements are of course in addition to the evident gains in access to services, infrastructure, human development and local economic development. These development dynamics have also become triggering factors for subsequent improved quality of services and infrastructures. The investments in basic services and facilities are improving the welfare and productive employment of women. Moreover, extension services of improved agricultural and livestock practices, market links and access to information are improving over time paving the way for sustainably improved livelihoods and standard of living of communities. Peace and stability are enhanced further in the CDP areas. The dividends of peace and stability accrue universally to all people. But children and women are even more noticeably benefiting from these public goods. Still, these encouraging early outcomes would not in any way divert the government's attention away from continuing with its efforts to ensure the observance of the Constitutional provisions, as well as the key principles and objectives of various government policies and strategies in CDP. The government also remains committed to continuing the constructive engagement with DAG Ethiopia with regards to the implementation of the CDP.

Thank you.

  
**Abraham Tekeste (PHD), State Minister**  
**Ministry of Finance and Economic**  
**Development**



  
**Shiferaw Teklemariam (Dr), Minister**  
**Ministry of Federal Affairs**

