

Ethiopia
Promoting Basic Services III
Joint Review and Implementation Support Mission and
Joint Budget and Aid Review
November 10-13, 2014

AIDE MEMOIRE

I. INTRODUCTION AND ACKNOWLEDGEMENT

The Government of Ethiopia and PBS Development Partners (DPs) held a Joint Review and Implementation Support (JRIS) mission and Joint Budget and Aid Review (JBAR) for the Promoting Basic Services (PBS) Phase III Program in Addis Ababa from November 10-13, 2014. The Government team was led by H.E. Dr. Abraham Tekeste, State Minister, Ministry of Finance and Economic Development. Development Partners included representatives from the World Bank, DfID, African Development Bank, European Union, Austrian Development Cooperation and the Government of Italy. A full list of participants is included in Annex 4.

The main objectives of the JRIS were to (i) take stock of overall PBS Results and tests (ii) assess implementation progress of all program components during the last six months (iii) identify future priorities for PBS support for the next six months and for the longer-term.

The current JRIS was organized around two focus areas: (i) Reviewing results in all PBS intervention areas including systems strengthening, service delivery quality and innovations and (ii) Broadening space and systemic arrangements for citizens' engagement and examining progress, results and efforts in the areas of linking activities under Financial Transparency and Accountability (FTA), Grievance Redress Mechanism (GRM) and Social Accountability (SA). The November 2014 JRIS mission was combined with the Mid-Term Review (MTR) of PBS III. While some of the objectives were similar, the MTR took a longer term view. The objectives of MTR were to:

- a) Assess progress of the project in the context of the Program Development Objectives (PDO) and respective project components;
- b) Review progress against Results Framework and identify areas for course correction;
- c) Review institutional and collaborative arrangements that might be affecting smooth implementation of the program; and
- d) Review performance against governance and fiduciary controls to achieve the credibility of the program
- e) Identify linkages going forward between PBS III and the preparation on a Program for Results on Equitable Access to Basic Services

The actual JRIS was preceded by three field missions in October 2014 in keeping with the thematic focuses of the current JRIS: one to Harari on overall results, one to SNNPR on systems strengthening and the other to Tigray on citizens' engagement. In citizens' engagement, the idea was to see the results of PBS interventions and government efforts in relation to Grievance

Redress Mechanisms, Financial Transparency and Accountability and Social Accountability in provision of basic services. These field missions helped deepen the JRIS discussions with first-hand information on developments as observed on the ground.

During this JRIS mission, a special attention was given to enhanced participation and sharing of experiences from the regions. A total of 130 participants from the regions, including some members of Parliament, attended the JRIS—the highest number ever in any JRIS. Notably, most of the deliberations in the JRIS sessions took place in Amharic with simultaneous translation service for the non-Amharic speaking participants. This helped increase regional participation in the discussions. Another new element in the recent JRIS was a poster exhibition organized on the thematic focuses of the JRIS, i.e., results, systems strengthening and citizens' engagement.

In his opening remarks, Honorable State Minister of the Ministry of Finance and Economic Development, Dr. Abraham Tekeste, highlighted significant progress Ethiopia has made over the past years in its move towards poverty reduction, economic growth and acceleration of attainment of the GTP goals and MDGs through the delivery of quality basic services. He emphasized that PBS program has been instrumental in this achievement through its continued support to delivering basic services and improving accountability at the grassroots level.

On behalf of the Development Partners, Heinz Habertheuer, Head of Austrian Development Cooperation, congratulated the Government of Ethiopia on a number of important achievements and on keeping the focus on pro-poor and broad based development. He hoped that the promise to achieve PBS results would continue throughout the program's lifetime. At the same time, Mr. Habertheuer pointed out a few areas that demand Government attention. These were (i) the reasons behind decline in proportion of regional spending in PBS sectors; (ii) slow progress under Managing for Results component in the areas of strengthening management information system in the sectors, particularly in water and agriculture; (iii) possibility of reallocation of funds under Program B; (iv) strengthening procurement capacity at *woreda* level and establishing the Procurement Training Certification Program; (v) strengthening citizens' engagement in constructive discussions with local government on the best use of resources under FTA, institutionalizing and scaling up sustainable social accountability activities and opening of additional branch offices of the Ethiopian Ombudsman in the remaining regional states to improve access to the Grievance Redress Mechanism and importantly (vi) strengthening financial management through timely bank reconciliations and increasing resolution of audit recommendations at a decentralized level.

At the end of deliberations for four days, PBS Development Partners and the Government Ethiopia reached a consensus that the Government had met most of the deliverables agreed at the May 2104 JRIS towards fulfillment of the core principles and have attained an overall satisfactory performance which is also in keeping with the country's development goals. This Aide Memoire records the main agreements reached. The agreed deliverables for the next JRIS (April 2015) are included in Annex I. Findings from these missions are reflected in relevant sections below. Full mission reports, presentations made at the JRIS sessions and the final Aide Memoire are available from the PBS Secretariat. The aide memoire will be made public after discussion with MoFED and will also be circulated to all regions.

II. ACHIEVEMENT OF DEVELOPMENT RESULTS

The Joint Review and Implementation Support Mission examined both the overall results achieved under PBS III over the past two years, as part of MTR, and the intermediate outcomes achieved over the past six months. The main features of these achievements are discussed below. The overall results are also presented in the updated Results Framework attached to this aide memoire (Annex 3). Besides, the achievements in deliverables for the last six months are detailed in the Status of November 2014 Deliverables attached as Annex 2.

Results across PBS III Intervention Areas

The first day of the mission reviewed results achieved so far, comparing against targets set in the program document. The review mission found that the program has continued to achieve results on service delivery, systems strengthening and improving accountability mechanisms although the pace in certain areas demands further acceleration.

On higher level objectives, the presentation focused not only on key results achieved in last six months, but also on the overall mid-term achievements to date. The important achievements are as follows:

- a. Net enrolment in upper primary education (Grades 5-8) slightly increased from 47.3 % in 2010/11 to 48.5% in 2013/14. However, the achievement still misses the target substantially—by 35 percentage points. The PDO level indicator, Student-Teacher Ratio (Grades 1-8) has reduced further to 1:49. It was noted that no regionally disaggregated information was available for 2013/14 on these indicators which otherwise would have helped track and address weaknesses.
- b. Penta-3 vaccination coverage has shown remarkable progress during the years of PBS III implementation. It reached 91.5% in 2013/14 from 84.9% in 2011/12, surpassing the target of 90.5% set for the year. The regional disaggregation, however, shows there is still much to do in some regions such as Somalie and Gambella, where the achievements are 60% and 50% respectively. Similar trend is observed in antenatal care. While the achievement for this year surpassed its national target, still results are low in Gambella region. The PDO level objective of health workers-to-population ratio has also showed progress over last year. This stands at 1:2446 surpassing the target value of 1:2500.
- c. On water supply, it was reported that the challenge of achieving national target for clean water supply had continued, though significant improvements were registered over the years of the PBS implementation period. Water supply in rural areas in 2011/12 covered 55.2% of the population and the coverage has now increased to 75.5% in 2013/14. There seems to be a substantive difference between urban and rural clean water supply coverage. Most critical challenge noticed on this sector is the lack of information on the PDO level indicator of non-functioning water supply facilities.
- d. Average productivity of main crops has increased to 20.3 Quintals reaching the target set for the year. The PDO level indicator has also improved where the direct beneficiaries of agricultural extension service have increased to 13.1 million during the year. However, the number of specialized DAs is still significantly off track.

- e. On rural roads, it was reported that the average travel time taken to reach all-weather roads on foot has declined further in this year to 1.8 hours. Most importantly for PBS III, proportion of *Kebeles* connected by all-weather roads increased from 39 % in 2009/10 to 68 % in 2013/14. The PDO level indicator has also kept steady at 500 *woreda* road desk with appropriate staffing.

The participants in the JRIS observed that these outcomes were major contributors to the country's continued progress towards the MDGs and overall macroeconomic development. The discussion on the results was followed by a review of the November 2014 deliverables from the development partners. There were 43 deliverables (excluding the unmet deliverables from May 2014 JRIS) with 64 means of verification. According to reports from the technical working groups and MoFED, most of these deliverables have been met with some discrepancies in understanding what is to be considered "fully achieved," and therefore, some variance in reporting. Areas that need particular attention are activities under MfR and project financial management.

Glimpses from Service Delivery Indicator (SDI) and SPA+ Studies

Two recently concluded studies—Service Delivery Indicator study on education and the SPA+ study on health—were discussed during the JRIS. While the preliminary results from the Education SDI were shared, the findings from the Health study are still being finalized and therefore, the presentation covered only the process and methodology for the study. The Education SDI study was conducted on a sample of 222 rural schools and 125 urban schools. One interesting finding from the study is that teacher absenteeism in Ethiopia is only 12 percent—10.1% in rural schools and 14.1% in urban schools. The absence rate is considerably less than those in Tanzania, Kenya, Uganda and Senegal. However, the rate of teachers present in school but absent from class is 28 percent—more in rural areas than in urban areas. Such absence is the highest in Gambella (58%) and the lowest in Tigray (4%). The reason behind this and regional variations need to be understood further.

Another important finding from the education SDI study is the teachers' minimum knowledge of English, pedagogy and mathematics. While the score was laudably high in mathematics, serious attention is needed in the areas of pedagogy and English. The participants commended the discussion on the study which will hopefully contribute to appropriate policy decision with regard to interventions in the areas that need improvement. It is recommended that the reports on Education SDI study and the Health SPA+ study be finalized for wider dissemination through workshops and presentation at JRIS.

III. CURRENT IMPLEMENTATION STATUS: OVERALL AND BY COMPONENTS

The Government and the Development Partners jointly reviewed the current implementation status of PBS III both under sub-programs A and B with active participation of the representatives from the regions. Overall, the participants agreed that the implementation of the program has been successful in all areas as evident from the fact that most of the deliverables for November 2014 JRIS have been met contributing towards the fulfillment of the core principles.

The present section of the aide memoire captures the salient features of the discussions on implementation status.

III a. Sub Program A: Basic Service Block Grant

The support to the block grant to finance basic service delivery at sub-national level is the major component of PBS III. By supporting the block grant, PBS III contributes to the achievement of the MDGs and the government's GTP targets in the five basic service sectors. PBS support to the block grants is based on Core PBS Principles and tests that reflect joint understandings of how to reach the shared development objectives of improving decentralized basic service delivery.

Additionality

The Additionality Test for the November JRIS is an ex-post review which focuses on whether the government's spending reflects its stated commitments and policy direction to decentralized basic service delivery. This is done by examining actual fiscal out-turns against proclaimed budget.

The Additionality Test criteria and the government's performance for this JRIS are presented below:

Criteria 1: Review whether Federal Block Grant (FBG) allocation for EFY 2007 indicated in the Medium-term Economic and Fiscal Framework (MEFF) is reflected in the budget proclamation.

- *Result:* The FBG allocation for EFY 2007 indicated in the MEFF (51 billion Birr from Treasury source) is reflected in the EFY 2007 Federal Government Budget Proclamation.

Criteria 2: Review whether FBG budgeted for EFY 2006 is disbursed, at least by 95%.

- *Result:* FBG allocations to all regions in EFY 2006 were fully transferred.

Criteria 3: Review whether the share of basic services from sub-national governments' budget in EFY 2007 is not declining compared to EFY 2006.

- *Result:* Regions' allocation to basic services in EFY 2007 budget increased compared to EFY 2006.

Therefore, it is concluded that the government has passed the Additionality Test for this JRIS.

Fairness

The Fairness Test for this JRIS examined whether the allocated block grant amounts in the preceding fiscal year had been fully disbursed. Allocations are said to be fully-disbursed if at least 90 percent of the allocated amount is disbursed.

The Fairness Test criteria and the government's performance for this JRIS are presented below.

Criteria: Review whether block grant disbursements are close to allocations. This involves comparing EFY 2006 annual block grant transfers from Federal Government to regions and from regional government to *woredas* against allocations. Acceptable level of transfer to pass the test is 90% and above with discrepancies over 10% requiring explanations.

Result: The Federal Government fully transferred block grant allocations to regional governments in EFY 2006. Except for a very few cases, all regional governments also transferred 100% of the block grant allocations to their respective *woredas* in EFY 2006. There were only a few *woredas* that received below 100% of their allocation and even these few *woredas* received at least 94% of their allocations.

Therefore, it is concluded that the Fairness Test for this JRIS is cleared.

Sustainability

Sustainability has been included as one of the PBS Core Principles so that both the government and PBS Development Partners will have better understanding on the sustainable financing of basic service delivery even without PBS support. As a follow-up to a recent review workshop, the government and PBS DPs have proposed a consolidated set of analytical and diagnostic works under the Sustainability Review. Accordingly, some preliminary works have been conducted to get better understanding on cost of basic service delivery at the *woreda* level. The IGFT working group in collaboration with MoFED conducted this exercise on a pilot basis in a couple of selected *woredas*. In the coming months, this pilot exercise will be extended to a national level to get country-wide understanding on the cost of basic service delivery. Also, MoFED and IGFT team need to work together on domestic resource mobilization study which will also inform the Sustainability Review.

Predictability

The government and PBS DPs have agreed to ensure mutual accountability by improving the predictability of resource flows to basic service delivery. Accordingly, every JRIS reviews whether disbursements from PBS DPs are aligned with their commitments and whether these disbursements are accurately reflected in the government's budget. At this JRIS, it was noted that disbursements from PBS DPs to the block grants in EFY 2006 were well in line with their commitments and that they were also reflected in the government's budget. It was also noted that the government's budget for EFY 2007 had largely reflected planned disbursements from the development partners although the budget didn't take into account the revised disbursement schedule of DfID.

Joint Budget and Aid Review

The discussion on Joint Budget and Aid Review for this JRIS focused on the government's fiscal outturn for EFY 2006 and the budget for EFY 2007. It was noted that domestic revenue collection continued to grow in EFY 2006 although there was a slight decline as a percentage of GDP. While tax revenue performance was very good (achieving the annual target as well as increasing as percentage of GDP), the performance of non-tax revenue was weak. In EFY 2007, however, domestic revenue collection as ratio of GDP is expected to improve.

Expenditure performance in EFY 2006 was also found to be very strong with very high recurrent and capital budget execution rates. At the general government level, spending continued to be

focused on sectors relevant to the achievement of the MDGs. Accordingly, the pro-poor sectors continued to absorb about 70 percent of total government expenditures.

While the fiscal deficit in EFY 2006 was below what was initially budgeted, it showed a significant increase to 2.6% of GDP compared to 1.9% last year. Foreign borrowing and domestic non-bank borrowing were the major means of financing the deficit. The deficit is expected to further widen to 3% of GDP in EFY 2007.

Regional governments' revenue collection also increased in EFY 2006 although it was below what was planned in most regions. Expenditure performance was also strong at the regional level with both recurrent and capital budget execution showing significant improvement. There was, however, a decline in the share of basic services from 67% to 64% from the total regional spending although the share is expected to recover in EFY 2007. It is important that the reasons behind this decline be studied and corrective measures taken.

During the JBAR session, there was also a discussion regarding a balance between salaries and operating expenditure of regional spending in the PBS-supported basic service sectors. It was noted that while the salary-operating expenditure balance varies across the five sectors and across regions, a general pattern is discernible that salary payments tend to dominate at the *woreda* level while the proportion of operating expenditures tends to be higher at the regional level. During the deliberations, representatives from the regions noted that one major factor for the very high proportion of salary payments at the *woreda* level was the continued expansion of service coverage especially in health and education which requires hiring of service delivery staff. An increase in the number of *woredas* in order to bring service delivery closer to the people especially in the bigger regions also contributed to lower proportion of operating expenditures from *woreda* budgets. It was noted that service delivery facilities such as health centers were using their internal revenue to complement their operating expenditures.

Recommended Actions

The satisfactory completion of core tests and analysis on additionality, fairness and predictability and the continued dissemination of budget and JBAR information were agreed as deliverables for the next round of JRIS. There was also an agreement to continue with the analytic activities started around cost of basic service delivery as well as domestic resource mobilization as part of the Sustainability Review.

III b. Sub-Program B

Citizens' Engagement (JRIS Thematic Focus)

The citizen's engagement of component of PBS III has three thematic parts namely Financial Transparency & Accountability (FTA), Grievance Redress Mechanism (GRM) and Social Accountability (SA) the objective of which is to improve delivery and quality of basic public services at *woreda* and *kebele* levels through transparency and accountability means.

Sub-Program B1a: Financial Transparency and Accountability

The pre-JRIS supervision field mission and the JRIS discussions confirm that the FTA initiative is well integrated into the government public finance management system and planned activities are progressing as envisaged. The mission commends that all the deliverables agreed during the last JRIS have been fulfilled. The regular annual FTA review meeting was held in August 2014 in which the regions exchanged their best practices and a number of decisions were made. Inputs to finalize the pre-budget discussion guidelines were received and incorporated into the guidelines and a draft directive were prepared and endorsed at the August 2014 FTA annual review meeting. The guidelines were issued by MOFED and were disseminated to regions for implementation. An FTA reporting format that would enable to capture results were designed, approved and disseminated to the regions for use.

Budget expenditure and service delivery information continues to be disclosed at the local level. It is reported that 95.9% of *woredas* have posted their budget and expenditure templates and 63% of service delivery units have posted their respective information using FTA templates. Regions also continue dissemination of budget information to citizens using mass media such as TV, radio, brochures, pamphlet, t-shirts, calendars and newspaper. MoFED made an agreement with Ethiopian Broadcasting Corporation to disseminate the FTA initiatives through a 20-minute TV program every 15 days for one year which is expected to start in November 2014. Moreover, Addis Ababa, Somali and Harari have disseminated their annual budget through SMS Mobile messages to citizens.

After May 2014 JRIS, 66,125 additional citizens, council members and government officials and sector offices have received budget literacy training (BLT). The trainees include 37,243 citizens (37% female); 5,920 (31% female) council members, cabinets and sector office staff. A special training for 22,962 (33.4% female) stakeholders which included participants from ORAG, anti-corruption office, revenue and custom office and regional council (in Amhara). Besides, review meeting was held with trained citizens in SNNPR. Meetings were held also with citizens during terracing and other local development works in Harar and at *kebele* level in Gulomekeda and Endemehoni *woreda* of Tigray.

The initiative to create and strengthen FTA/SA linkage activities has been progressing very well since the last JRIS. Discussion has been held between MoFED, BoFED and SA teams on the progress of FTA/SA linkages in various fora including the August 2014 FTA annual review meeting at Adama. The final FTA/SA linkage guidelines have been prepared and disseminated to the regions. In the regions, both FTA and SA teams are working together. The best examples emerge from SNNPR, Tigray and Addis Ababa. Other regions are on the way to establishing FTA/SA linkage committees. Staff turnover, particularly in relation to trained PFM team members and low participation of female in the budget literacy training remains a challenge that requires special attention.

For the next JRIS, the mission agrees that in addition to the regular activities of the FTA work, the finalized audit and procurement FTA templates should be disseminated to regions for translation and use. Budget Literacy Training should continue and include at least 40% female participants, use of regional media should be strengthened and the FTA/SA linkage activities

should be continued and evidenced by concrete actions. All *woredas* should also shift to using the revised FTA templates.

Sub-Program B1b: Social Accountability

Implementation of ESAP2 continues to evolve as well as related dialogue on continuity, institutionalization and sustainability. Since the last JRIS social accountability committees (SACs) assisted by social accountability implementing partners (SAIPs) undertook interface meetings and drew joint plan of action (JPAs) for service improvements in 70 *woredas* bringing the total number of *woredas* with JPA to 150 out of the total 223 social accountability *woredas*. In most of these *woredas* implementation monitoring of the JPAs has commenced. The number of citizens' representatives who obtained the sensitization training on SA has reached 178,267 while those who were directly engaged in evaluating the basic public sectors using SA tools have risen to 109,084.

Aside from the attitudinal changes of the local government officials, service providers and citizens who have been involved in the downward accountability and empowering people through voicing their demands, anecdotal evidence shows that remarkable results have been realized to improve the provision of basic services in the public sector as initiated by the social accountability undertakings. In the education sector 85 additional classrooms, 39 separate toilets for girls and boys, 17 school water sources, 22 school compound fences were constructed and 113 additional teachers were recruited resulting from commitments made at the interface meetings. The contribution of the local government, the community and others (NGOs and the private sector) to achieve these results in monetary terms was 56%, 15% and 29% respectively. Similarly in the health sector supplies of drugs were improved, additional health staffs were recruited, water and sanitation facilities at health amenities were constructed & maintained and laboratories were better equipped. With regards to water and sanitation, just to mention the major ones, 56 new water points were constructed & 54 were repaired, 60 water points were fenced and 753 community dry-latrines were constructed. In addition, to improve the public service in the agricultural sector additional extension workers & veterinary staffs were recruited and essential agricultural inputs were distributed on time based on information from the field and the SAIPs.

The pre-JRIS field mission on citizens' engagement visited three social accountability *woredas* in Tigray and witnessed that the participation of the poor and vulnerable at *kebele* level was substantial while at *woreda* level SACs are composed of *woreda* cabinet members. The reality that social accountability has been taken on board by the *woreda* councils and cabinets can be considered as a solid foundation for institutionalizing and sustaining it in the long run. However issues pertinent to sustainability like the continuity of the participation of the various social groups (the associations -farmers, women, youth, persons with physical challenges, and people with HIV) at *kebele* level which requires facilitation, training and budget continue to present uncertainty. In the *woredas* visited, the linkage between Financial Transparency and Accountability, and Social Accountability at the grassroots level appears to be taking shape for the FTA focal persons are also members of the SACs and are involved in all SA training and events. Besides, FTA focal persons were engaged in providing training to the SACs and focal

group discussants on budget literacy, participatory budgeting and regional service standards so that the community's demands are realistic and confined to these standards.

The mission inquired from citizens' views on specific attributions of SA in their localities and their feedback indicated that SA has (i) enabled to reveal the special needs of the poor and the vulnerable; (ii) helped citizens to acquire knowledge and information on sector policies and service standards; (iii) ensured continuous and structured dialogue between citizens, service providers and local officials; (iv) made the bottom –up planning process very practical; and (v) inculcated among citizens a sense of ownership of public and community assets such as water points, health & school facilities and roads leading to their contribution to protect, maintain and expand public entities.

The draft 'Medium Term Priorities and Roadmap Paper' that is currently under discussion among stakeholders provides a framework for promoting dialogue and reaching agreement on the next steps toward institutionalized and sustained social accountability in Ethiopia in the medium and long term. A summary of the draft priorities was presented at the JRIS and agreement reached that a workshop be organized soon to hold discussion on the draft priorities and roadmap, and firm up agreement on how to take them forward. *In particular and as recommended by the session on citizens engagement, it will be imperative to hold the workshop earliest possible in December to agree on the nature and scale of support to SA beyond ESAP2, a priority that will provide a framework for shaping and finalizing the rest of the priorities that will be agreed in the same workshop.*

Sub-Program B1c: Grievance Redress Mechanism

The mission commends that EIO met most of the deliverables expected for this JRIS. The study on GRM has started and DPs would like to see its output to further accelerate GRM system strengthening including in the Developing Regional States (DRS). Training has been provided to 189 (154 male, 35 female) GRM officers drawn from Amhara Regional State Zones and all *woredas*. A total of 160 (113 male, 47 female) GRM officers drawn from Dire Dawa City Administration, Somali region and Harari region were also trained since the last JRIS.

As one of the core objectives of the GRM support, the mission congratulates the EIO for providing awareness raising training and holding workshops for its key stakeholders, mainly the regional and Woreda Public Grievance Hearing Offices. This contributes to strengthening transparency and accountability, good governance and complaint handling mechanism in the public sector. These should continue in all the regions including DRSs, and also for *woredas* and *kebele* level GRM officers.

As a follow-up action, the mission agreed that that the GRM study should be conducted, the outputs should be shared with DPs at each stage and the final report should be submitted by the next JRIS. Promotion of GRM activities should be continued by using media and print materials to improve citizen's understanding about the procedures of the appeals and complaints mechanism.

The mission would like to encourage the continuity of the already started capacity building training activities being delivered to the regional and *woreda* GRM officers by the EIO. It is also important to find ways to take the GRM system to the grassroots level in *kebeles*. Improving access to the system by opening EIO branch offices in Afar and Benishangul-Gumuz is encouraged which would help the Government achieve its GTP target and improve citizens' access to redress mechanisms. The GRM Technical Working Group will work with the EIO and identify areas of support, to be provided by DPs, for EIO and the Public Grievance Handling Offices at the regional and *woreda* levels.

Sub-Program B2: Public Financial Management And Procurement

Since the major share of the PBS support goes into the recurrent budget of the Government, a robust fiduciary system reaching from the federal level through regions to local administrations is expected to function properly to ensure the proper usage of PBS resources. It involves numerous mechanisms to maintain the strength of that system. The Project Appraisal Document (PAD) of the PBS III program is explicit about requiring the Government to submit regular financial reports and audits to DPs and strictly follow procurement rules to demonstrate that fiduciary standards are being maintained and strengthened.

Public Financial Management

Since the PBS program provides financial support to more than 1000 *woredas*, strengthening government financial management systems is a core component of the PBS program. Over the last six months there has been good progress and all the deliverables agreed during the May 2014 JRIS have been met.

- The concept note for the stand alone PFM project was received by MOFED from the WB and the Bank has been requested to proceed with project preparation,
- draft PEFA reports for the Federal Government and the five regions and Addis have been received and stakeholder discussions conducted at the Federal government level and at the regional level,
- two meetings of the PFM Sector Working Group were held and substantive issues were discussed and followed up on,
- the law to establish accountancy bodies in the country was approved by Parliament and the regulations were approved by the Council of Ministers,
- 400 Internal Audit Committees have been established at the *woreda* level and their strengthening is underway,
- Oracle IFMIS is now the system of record in six federal public bodies and the bid document to recruit a company for the roll out has been prepared,
- Ethio Telecom has been contracted to roll out improved *woreda* net connectivity to 724 *woredas*, 52 zones, 292 regional sector offices and 58 public bodies. This implementation is underway.

Going forward, the focus is on rolling out the new version of IBEX to at least 400 *woredas*, implementing the plan for institutionalization of PFM training, establishing the National Accountancy and Auditors Board and appointing its Director, revising and improving the format

that links activities, results and budgets. It is also important to continue with the plan for strengthening internal and external audits and continue the ongoing excellent dialogue with the donor group on identifying and addressing challenges and bottlenecks in government PFM systems. Besides, the reform program for Expenditure Management and Control Program would be suitably adjusted to take on board the weaknesses identified in the PEFA reports, OFAG and ORAG annual reports and findings from Continuous Audit Reports. As a next step, it would be also important to see the implications of the reform program for PBS III.

Project Financial Management

During the JRIS, MoFED / COPCU made a comprehensive presentation on the PBS III financial management arrangements. It is noted that most of the key deliverables for the November 2014 JRIS have been met but there was some discrepancy on the level of progress against some of them.

- IFRs were delivered on time and their quality has been improving
- Quarterly Continuous Audit (CA) reports were prepared in a timely manner, action plans were prepared and followed up in a timely manner with regions,
- Timely disbursement of funds from donors for component A was achieved
- Repeated field visits were conducted by MoFED and Regions to support/follow up regions.

Three key challenges that were noted were low budget utilization of EFY2006 of funds for sub program B, quality of IFRs and rectification of audit findings at the *woreda* level. On the issue of utilization of funds for sub program B, it was noted that against a budget of Birr 741 million only Birr 478 million (64.6%) had been released. Of the amount that was released Birr. 306 million (64%) had been utilized and when compared against the total budget of Br 741million, this shows about only 41% budget utilization. Of the funds earmarked for sub component B2 – Local Public Financial Management and Transparency—against a budget of Birr 386 million, Birr 175 million was utilized (45%). The performance of the regions was good. Regions were able to utilize around 80% of the funds that were transferred to them. Parliament was able to utilize 88% of the funds transferred to them and the audit agencies utilized 66%. MOFED’s utilization was only 39% of the transferred funds primarily due to time taken to get certain critical procurement activities underway.

Quality of financial reports particularly on explanations on budget utilization and variances in expenditure classification/recording were still noted to be areas that require further improvement. It was stressed that regions should be sending quarterly financial report to MoFED after ensuring that it is checked against “IFR checklists” developed and distributed to them.

On audit, while COPCU’s efforts to draw up region-wise action plans were appreciated, it was noted that continuous audits continue to show that audit findings that were fully resolved were less than 10%. There is therefore need for addressing this issue given the fact that all CA reports raise the same issues again and again.

Going forward, it was agreed that there would be a close monitoring of budget utilization of all components and particularly of sub component B. Monitoring of Sub Program B3, M4R, remains a particular concern. As part of this monitoring it was suggested that alongside IFRs, MoFED include a statement presenting also the amounts committed and in the pipeline. The CA process would continue with MOFED and the regions putting a stronger emphasis on implementing audit findings (among others through proactive involvement of regional internal auditors recruited by PBS and regional channel one coordinators). It was agreed that MoFED would deliver the Annual Audit Report before the due date of January 7, 2015 and that MoFED would continue to submit IFRs on time, address the quality issues and effectively resolve outstanding audit issues relating to PBS II.

Procurement

Overall progress on procurement reform activities supported by the program and implementation of procurement activities under component B of the Program is satisfactory. Mission members received updates from the Federal Public Procurement and Property Administration Agency (FPPAA) on procurement reforms as well as progress on implementation of procurement activities by Channel One Programs Coordinating Unit (CoPCU) since the last JRIS in May 2014. Development Partners shared their reflection on key procurement issues based on the presentations.

The PPPAA reported that work on the revision of Procurement Proclamation and Directives has advanced and has been finalized at agency level. The revised Proclamation and Directives will be submitted to Council of Ministers and Parliament for approval.

The process to conduct *woreda* procurement system gap identification and preparation of simplified directive has advanced and is expected to be concluded by end of December 2014 with a workshop to discuss findings for all key stakeholders. Consultant was also hired and work is in progress to review procurement competency framework, develop certification program and prepare materials for institutionalized training. The World Bank has provided support to carrying out analytical work on Framework Contracts and Value Chain Analysis during this period which was delivered to Government.

All regions were reported to have started carrying out procurement audits. On average 14% of procurement entities were covered in the regions' audits. At federal level 52% of the entities were audited in EFY2006. Key findings on the audits were shared during the mission. In the next six months PPPA plans to concentrate on finalization of the Proclamation and Directives, studies and analytical works and work with regions to implement the findings of the audits. CoPCU reported that about 86% of procurement activities on the approved procurement plan have been started against an agreed target of 90%. Of the activities started, about 75% by value was contracted and the rest in the procurement process. Slower progress than expected was reported in procurement activities under sub component B3 (Managing for Results). The subcomponent was reported to be under review to streamline some of its procurement activities and it was expected that progress would pick up after this exercise. It was requested that the rate of spending under this component be reported to DPs on a bi-monthly basis. If low utilization continues, then the options for reallocating the funds to other PBS activities should be

considered. It was also reported that CoPCU was working with regions to follow up on the implementation of audit findings based on an action plan agreed with the World Bank.

The World Bank provided reflection on the progress on behalf of other Development Partners. The Bank recognized tremendous progress in the implementation of procurement activities under Program B and very good progress in reform activities. The World Bank thanked the Government for the creation of the Procurement Subgroup under the PFM sector working group which is providing productive space for procurement related discussions.

PPPAA was encouraged to make use of audit recommendation and findings of the various analytical works to inform the revision of the procurement legal documents and preparation of its strategic plan. Government was also advised to think of linking Procurement Training Certification Program with development of professional structure on procurement within the civil service so as to make better use of the program. Concurrently, PPPAA was encouraged to expedite the ongoing procurement reform activities including the finalization of the Procurement Performance Indicators into the procurement system. It was further discussed that procurement audit recommendations have to be addressed and actions plans have to be implemented at all levels including in regions. Furthermore, the Government was advised to enhance contract administration capacity and update procurement plans in accordance with changes in work plans.

Sub-Program B3: Managing for Results and Systems Strengthening (JRIS Thematic Focus)

Managing for Results (MfR) component has three broad engagements: (i) results monitoring, (ii) strengthening of sectors' management information systems, and (iii) analytical work. The PBS results are being reported in every JRIS in collaboration with line ministries and other relevant government entities. PBS III is also supporting sectoral M&E systems to produce timely data of desired quality and reports from all five basic service sectors and from Central Statistical Agency (CSA). A number of analytical reports have recently been produced and others are being prepared.

Following the May 2014 JRIS, a series of actions have been undertaken in relation to MfR component to enhance performance and efforts around the set deliverables. A major area of success has been the consolidation of the analytical work program, around 15 discrete activities, as well as the cancellation and deferral of six activities that were deemed redundant or duplicative. With support from the stakeholders, the analytical work program of M4R has been prioritized around critical sectoral activities as well as a reformulated evaluative approach which would include, among other things, critical activities under CSA and the flagship studies such as PSIA and Poverty Maps.

The Managing for Results component has brought out a number of analytical outputs for this JRIS. Results of the education SDI survey, Mini DHS, gender disaggregated development data, and the M&E system assessment reports for education and health sectors have been reported at this JRIS. While these outputs show that implementation of the MfR component is progressing according to the schedule, they also provide a much better picture and disaggregated information regarding the coverage and quality of services in different regions and across populations groups.

This will inform decision making process in the Government and help design targeted interventions in future.

Under systems strengthening activities some major bottlenecks have been addressed, resulting in the finalization of major procurement activities for ERA and IT equipment. The vast majority of planned procurement activities are in progress or under contract. However, the overall progress of systems strengthening activities requires attention with a specific focus on progress in training. To improve budget utilization and implementation progress, particularly in MoA and MoWE, it was agreed that the ministries would enhance follow up activities and speed up processing of contracts. Increased technical support can be provided from COPCU, the secretariat, and DPs as needed.

A key issue of concern still relates to budget utilization under MfR and going forward, the potential resource reallocation, if necessary. To date, only 11% of the total budget has been utilized mainly because of procurement delays, which is far below expectations largely due to inherent delays at the set up stage of the program. For EFY 2006, budget utilization was only 23%. With a budget of \$12 million for EFY 2007, full budget utilization appears to be unlikely. While the details of activities and responsibilities are presented in Annex 1, going forward, the major priorities under the MfR that MoFED, sectors and DPs should focus on are to:

- Address information mismatch of progress through improved reporting, and updating of MfR work plan in POM.
- Undertake full review of systems strengthening activities, including consultation with sectors on support requirements to mainstream activities, identification of cross-sector learning and review of training progress.
- Develop a fully costed-work program for PBS 3 duration, which clarifies the balance between systems and analytical works.
- Determine a process / timeline for budget reallocation

Highlights from field missions

The PBS field mission on results reveals that the Harari region is showing impressive results on most indicators on health and education sector. Still there are challenges to improving contraceptive acceptance rate and gender parity in education. On systems strengthening, the field mission to SNNPR shows that the support provided to the education management information system is bearing results in institutionalizing decentralized information utilization and quality data production. There are lessons to be learned from the successes of the education sector MIS for other sectors such as Water and Agriculture, where little is found at lower levels on operationalizing the MIS designed under the project. Full reports on these field missions are attached as Annexes 5 and 6.

Challenges and Issues

One of the recurring challenges found during the field mission to SNNPR on systems strengthening is that the WASH MIS needs critical attention to track the required data for the sector. It was noted that new MIS was complex and it required a number years before it could be

fully operationalized to all regions. For the short term, there is an urgent need to design a flexible (EXCEL based) system to track key indicators in the sector. As regards education MIS, it has been observed that the burden of data collection on school masters is too onerous. This also requires quick response from the relevant authorities in further decentralizing the EMIS to schools and *woredas*.

Regional working group reflections

The group discussions on the field mission to Harari region highlighted the challenges of the region to achieving targets on reducing gender disparity in enrollment in education and improving contraceptive acceptance rate. Efforts are being made by joint task forces to address these challenges and significant progress has been made in education sector as a result of these efforts. The contraceptive acceptance rate, however, is found to be a continuous challenge which requires a concerted effort by all stakeholders including society leaders in understanding the problem in depth and devising appropriate instruments. The discussions on systems strengthening mainly focused on how to accelerate activities in lagging sectors such as agriculture and water taking lessons from MIS in education and health sectors. Furthermore, a key point brought forward from all groups was that wide dissemination of MfR's outputs on mini-DHS, gender disaggregation, geo-referencing of basic service facilities, and system assessments is needed so that the regions can get in-depth knowledge and assist in the implementation of the recommended actions.

Recommended actions

Enhancing mother's education, creation of awareness by society leaders, and increased attention by the health sector on the contraceptive acceptance rate are the key suggestions made on how to improve achievements on the indicators in Harari region. On education MIS, it was suggested that further improvement be made by providing training and updating the system at the federal level. Implementation of EDQAF on agriculture and water sector is also a key recommendation put forward by the participants. Along with this, the training on Results Based Monitoring (RBM) and evaluation is noted to be long overdue which needs to be implemented going forward. Other recommendations include implementation of the results and expenditure data collection, taking stock of roads network in the country, further analyzing gender disparities in development, continuation of strengthening the EMIS through checking internal consistency, and implementation of surveys such as SDI and tracking surveys.

IV. PROGRAM FOR RESULTS

A presentation was made on the Program for Results instrument proposed to be used for the World Bank's new program 'Improving Access to Equitable Basic Services' which, once effective, will complement PBS III during the period FY15-18.

The Program is proposed to replace the Specific Investment Loan (SIL) instrument that currently supports the Promoting Basic Services Program III (PBS III). It will build on the successes of the PBS program, which is one of a number of operations supported by IDA to assist the Ethiopian

Government in achieving its MDGs and poverty reduction goals. For IDA, the new will replace Program A of PBS which supports woreda block grants through the intergovernmental fiscal transfer system (IGTF). However, Bank's support to Program and support from other Development Partners for the entire PBS program will continue as it is through January 2018.

The Program for Results complements traditional Investment Project Financing (IPF) and Development Policy Lending (DPL) by funding specific expenditure programs, based on country systems as the implementing mechanism. The objective of the PfR is to help clients improve the efficiency of their programs of expenditures and achieve lasting results by strengthening institutions and building capacity. The key features of a PforR include (i) Financing and support of clients' programs of expenditures, using program systems (ii) Disbursing upon achievement of program results, not inputs (iii) Focusing on strengthening the institutional capacity needed for programs to achieve their desired results and (iv) Providing assurance that Bank financing is used appropriately and that the environmental and social impacts of the program are adequately addressed.

The rationale for PforR approach is drawn from the Project Performance Assessment Report (PPAR) of the World Bank's Independent Evaluation Group (IEG) which highlighted the suitability of PBS support to intergovernmental fiscal transfers (Program A) in the form of a PfR. Unlike budget support through a conventional Development Policy Operation, this support is multi-year, does not rely on annual programs built around 'prior actions' and 'triggers', and is in keeping with Paris Declaration principles placing program ownership firmly in the hands of Government. Disbursements are also linked to defined results under a set of Disbursement Linked Indicators (DLIs), as monitored under the Joint Review and Implementation Support (JRIS) missions.

PfR has the potential to promote stronger sectoral engagement, especially in the areas of health, education and agriculture. IDA support for this new PfR, as for PBS Program A earlier, will be complemented by specific sectoral operations that improve the quality of general education through the General Education Quality Improvement Program (GEQIP and GEQIP-2), provide opportunities for improved local agricultural investments through the Agricultural Growth Program (AGP and the planned AGP-2), support improved local water and sanitation (WASH), improve urban and local governance (ULGDP and ULGDP-2) and expand public sector capacity building and governance (recently closed PSCAP, which will be followed by a planned PFM project). Since the new program is expected to support recurrent expenditures for woreda-level basic services, it would have greater impact on those sectors that require more recurrent expenditures, such as health, education and agriculture.

The discussion highlighted strong interest and support from regions, especially regarding (i) prioritization of DLIs; (ii) elaboration of the context of equitable access and (iii) assurance that PfR would ensure continuity of overall support to basic services delivery under the IGTF mechanisms.

V. MID-TERM REVIEW OF PBS III

The joint Mid-Term Review of PBS III coincided with JRIS with the overall objectives of assessing progress against the PDO and Result Framework, reviewing the effectiveness of the project design and implementation approach, including governance and fiduciary controls, and identifying areas for adjustment and enhancement. Prior to the JRIS, there were a number of discussions between the PBS Secretariat and COPCU in MoFED on the program performance and critical operational aspects of the program and on identifying factors that are both contributing to and affecting smooth implementation of the program.

A full MTR report will be developed shortly. Some key highlights of the MTR deliberations, conducted through plenary and working group sessions, are presented below. Overall, there has been strong progress in attainment of results. The adequacy of the Results Framework for the project duration was confirmed, even if some targets remain quite challenging e.g. net enrollment in Grades 5-8. The Government commended the fact that PBS III complemented its programmatic approach for poverty reduction and basic services promotion and emphasized that PBS was a key instrument in the country's effort to achieve the MDGs and GTP goals and also a critical element that would help achieve Ethiopia's vision to reach a middle income country status by 2025.

Deliberations confirmed important results under Sub Program A, combined with catalytic interventions under Sub Program B in the areas of citizens engagement, financial management and results. These results have been reported above in the relevant sections and a number of analytical studies now available confirm that PBS III has indeed positively influenced promotion of basic services to the poor.

Some key challenges in reaching the overall PDO still need to be addressed. These are as follows:

- i. Important regional differences exist with emerging regions' performance still lagging behind the national average in some key indicators. For example, Penta 3 children immunization is only 43.5% in Afar and 67.4% in Dire Dawa whereas the percentages are 89.9% in Tigray and 93.2% in Oromiya. The Gender Parity Index is also 0.84 in Harari whereas gender parity is already almost achieved in a number of regions including Amhara, Tigray and Afar.
- ii. The gaps between urban and rural areas as well as gender differences within urban and rural areas are still formidable as observed from sector and survey data sets.
- iii. There is growing dependence on community contributions to construct and maintain (in case of water and road) basic facilities and infrastructure which could be an issue from sustainability point of view although this is generally seen as a positive development.
- iv. The availability of facilities in service giving institutions such as power, water, etc. remains inadequate.

The Mid-Term Review particularly brought to attention the special contributions of PBS 3 to the areas of good governance in terms of significant improvement in overall citizens' engagement, financial transparency and accountability, and overall improvement in public finance

management which have been discussed in the relevant sections above. It was also noted that *woreda* councils and cabinet are on board on the PBS III initiatives on good governance and citizens' ownership of service.

The review further underscored the critical contributions of the MfR program in delivering valuable analytical works and quality data, as well as in providing a platform to mainstream systems strengthening through provision of training and IT equipment. While this component has been slow to progress at times, the deliberations on the MfR updates highlighted significant improvements in certain areas over the past year as discussed in the section on MfR. This is best evidenced by the major analytical works completed or near finalization—the mini DHS survey, SDI studies in education and health, the PSIA and poverty mapping analyses to name just a few. Key challenges identified under sub program B are as follows:

- a. *Citizens Engagement*: The Government and the Development Partners need to ensure institutionalization and sustainability of good governance initiatives supported by PBS under citizens' engagement, and find avenues to further strengthen GRM activities.
- b. *Public Financial Management*: It is important to continuously strengthen internal audit systems, and ensure adequate follow up on audit findings building on the successes of PBS III.
- c. *Managing for Results*: The M4R component needs to urgently develop a revised and fully costed work program, which considers possibilities for resource reallocation. An area of special attention is potential reformulation for the systems strengthening activities, and the necessity of continued attention.

Besides, there are some cross cutting challenges which need to be addressed. For example, (i) Ethiopia faces a huge and growing demand for basic services which leads to financing challenges and shortage of budgetary resources at lower levels; (ii) inadequate revenue generation capacity at lower levels and shortage of operational budget at facilities level is a significant constraint; (iii) quality of services remains an important agenda and (iv) shortage of skilled staff at lower levels and high staff turn-over at all levels continue to be a formidable challenge.

Finally, the mid-term review enabled the identification of the way forward. Some key actions are to:

1. continue to build on the success of PBS III, with a particular emphasis on promoting equitable access to basic services, especially in the major sectors such as education, health and agriculture;
2. institutionalize all PBS III supported governance initiatives in the areas of citizens' engagement and public financial management;
3. strengthen internal audit mechanisms, and ensure that actions are taken to promote adequate audit follow up;
4. further deepen a culture of high quality results and continued transparency, building on the successful initiatives;
5. maintain continuity of development partner support around basic service delivery;
6. enhance budget monitoring going forward, ensuring adequate budget utilization and resource allocation where needed; and
7. address the issues of skilled staff and staff turn-over.

VI. KEY ISSUES AND AGREED ACTIONS

The mission discussed a set of deliverables for April 2015 JRIS. The sectoral and thematic working groups went through several iterations with the Government, Development Partners and the PBS Secretariat to agree on this set of deliverables which was further discussed during the JRIS. It is to be noted that the number of deliverables has been progressively reduced since November 2013 to bring it down to a total of 42 deliverables for April 2015 to make them concise, strategic and relevant to the PBS results. The agreed deliverables for April 2015 JRIS are presented in Annex 1.

VII. PROPOSED TIMING OF NEXT MISSION

The next Joint Review and Implementation Support mission for PBS III is tentatively scheduled for April 2015.

List of Annexes

Annex 1: List of April 2015 Deliverables

Annex 2: Status of November 2014 JRIS Deliverables

Annex 3: Updated Results Framework

Annex 4: List of participants/institutions joined the JRIS Mission

Annex 5: Field Mission Report from Tigray on Citizens' Engagement

Annex 6: Field Mission Report from Harari on Results

Annex 7: Field Mission Report from SNNPR on Systems Strengthening