SUBJECT : ETHIOPIA – PROTECTION OF BASIC SERVICES II (PBS)

PROGRAMME COMPLETION REPORT *

PROGRAMME COMPLETION REPORT OF A POLICY BASED LENDING OPERATION

A. PROGRAMME DATA AND KEY DATES

I. BASIC INFORMATION

<table>
<tr><td>Project Number</td><td colspan="2">Project Name</td><td colspan="2">Country (ies)</td></tr>
<tr><td>P-ET-K00-009

P-ET-K00-010</td><td colspan="2">PROTECTION OF BASIC SERVICES II (PBS II) PROGRAMME (Grant)
PROTECTION OF BASIC SERVICES II (PBS II) PROGRAMME (Loan)</td><td colspan="2">ETHIOPIA</td></tr>
<tr><td colspan="3">ID Number of all Lending Instrument(s)</td><td>Department</td><td>Environmental Classification</td></tr>
<tr><td colspan="3">Grant No. 2100155013866

Loan No. 2100150023294</td><td>OSGE.1</td><td>Category 3 - Environmental Assessment Not Required</td></tr>
<tr><td colspan="2">Original Commitment Amount</td><td>Amount Cancelled</td><td>Amount Disbursed</td><td>Per cent Disbursed</td></tr>
<tr><td colspan="2">UA 182,600,000 (UA 110,000,00 as a Grant and UA 72,600,000 as a Supplementary Loan)</td><td>UA 0.00</td><td>UA182,600,00 0</td><td>100.00</td></tr>
<tr><td colspan="5">Borrower</td></tr>
<tr><td colspan="5">FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (FDRE)</td></tr>
<tr><td colspan="5">Executing Agency(ies) [List the main Ministries, Project Implementation Units, Agencies and civil society organizations responsible for implementing project activities.]</td></tr>
<tr><td colspan="5">MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT (MOFED)</td></tr>
<tr><td colspan="5">Co-financers and other External Partners [List all other sources and amounts of financing, technical assistance or other resources used in this project]</td></tr>
<tr><td colspan="5">WORLD BANK (US$ 933 million), EUROPEAN UNION (US$ 66.8 million), DFID (US$ 313.2 million), GERMANY-KfW (US$ 77.0 million), SPAIN (US$ 40.7 million), IRELAND (US$ 32.9 million), CIDA (US$ 22.3 million) AUSTRIA (US$ 10.9 million), ITALY (US$10.2 million),and NETHERLANDS (US$ 10.9 million). AfDB's contribution of UA 182.6 million was about US$ 271.9 million.</td></tr>
</table>

II. KEY DATES

<table>
<tr><td colspan="2">Project Concept Note Cleared by Ops. Com.</td><td colspan="2">Appraisal Report Cleared</td><td colspan="2">Board Approval</td></tr>
<tr><td colspan="2">27 AUGUST 2008 (Grant)
14 JULY 2010 (Loan)</td><td colspan="2">08 OCTOBER 2008 (Grant) 22 SEPTEMBER 2010 (Loan)</td><td colspan="2">18 DECEMBER 2008 (Grant)
19 NOVEMBER 2010 (Loan)</td></tr>
<tr><td colspan="6">Restructuring(s)</td></tr>
<tr><td></td><td colspan="2">Original Date (MM/DD/YY)</td><td colspan="2">Actual Date (MM/DD/YY)</td><td>Difference in months</td></tr>
<tr><td>EFFECTIVENESS -Grant</td><td colspan="2">12/20/2008 (grant)</td><td colspan="2">01/20/2009 (grant)</td><td>1,0</td></tr>
<tr><td>- Loan</td><td colspan="2">December 2010 (loan)</td><td colspan="2">02/17/2011 (loan</td><td>3,0</td></tr>
<tr><td>MID-TERM REVIEW</td><td colspan="2">N/A</td><td colspan="2">N/A</td><td>0,0</td></tr>
</table>

CLOSING	12/31/2011	Please enter currently expected closing date 12/31/2011	0,0
	Expected Disbursement Date (MM/DD/YY)	Actual Disbursement Date (MM/DD/YY)	Waivers
TRANCHE 1: (GRANT)	06/30/2009	02/10/2009	NONE
TRANCHE 2	06/30/2010	07/06/2009	NONE
TRANCHE 3	06/30/2011	07/12/2010	NONE
TRANCHE 1 : (LOAN)	01/31/2011	03/07/2011	NONE
TRANCHE 2	06/30/2011	06/27/2011	NONE

III. RATINGS SUMMARY

Insert notes from the relevant tables in the different sections of the PCR. For example, please insert the "Overall Output score" in Section D.I. in the "Achievement of Outputs" box below.

CRITERIA	SUB-CRITERIA	RATING
PROGRAMME OUTCOME	Achievement of Outputs (insert score from Section D.I.)	3
	Achievement of Outcomes (insert score from Section D.II)	3
	Timeliness (insert score from Section F.4)	4
	OVERALL PROGRAMME OUTCOME [Score is calculated as an average of the ratings]	3
FUND PERFORMANCE	Design and Readiness (insert score from Section I.I)	3
	Supervision (insert score from Section I.I)	4
	OVERALL FUND PERFORMANCE [Score is calculated as an average of the ratings]	4
BORROWER PERFORMANCE	Design and Readiness (insert score from Section I.I)	3
	Implementation (insert score from Section I.I)	3
	OVERALL BORROWER PERFORMANCE [Score is calculated as an average of the ratings]	3

IV. RESPONSIBLE FUND STAFF

POSITIONS	AT APPROVAL	AT COMPLETION
Regional Director	Darietu Gaye, OREB	Steve Kayizzi-Mugerwa, OREB
Sector Director	Gabriel Negatu, OSGE	Isaac Lobe Ndoumbe, OSGE
Sector Manager	Carlos Santiso, OSGE.1	Abdoulaye COULIBALY, OIC, OSGE.1
Task Manager	Jerry Mutonga, OSGE.1	Victor Ndisale, OSGE.1
PCR Team		Victor Ndisale, OSGE (Leader); Peter Mwanakatwe, ETFO; Admit Zerihun, ETFO; and Milton Kutengule, Consultant.

B. PROGRAMME CONTEXT

Summarize the Fund-supported programme of which this project forms a part. State: - the macroeconomic rationale for fast -disbursing assistance to the country, - the policy or reform focus of the programme and its relationship to the PRSP or other relevant government strategies, - the outcomes of earlier PBLs, in particular earlier operations within the same programme, if any, - any technical assistance or institutional support project intended to complement this operation. Please cite relevant sources. Comment on the strength and coherence of the rationale for Fund assistance. Highlight any changes in the programme context that have favourably or unfavorably affected results. [300 words maximum. Any additional narrative about the programme's origin, if needed, must be placed in Annex 5: Programme Narrative]
The Protection of Basic Services II (PBS II) Programme supported the Government of Ethiopia to implement its poverty reduction strategies (the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) 2005/2006 to 2009/2010 and the Growth and Transformation Plan (GTP) 2010/2011 to 2014/2015. It did this by augmenting budgetary resources for the delivery of basic services in the areas of health, education, water and sanitation, agriculture, and rural roads. It also sought to strengthen the public financial management system through enhancing budgeting, procurement, financial reporting, auditing, and financial transparency and accountability and to strengthen the monitoring and evaluation of the programme. The macroeconomic rationale for fast-disbursing financial assistance was to maintain fiscal balance and minimize domestic borrowing by government. The assistance contributed to government's efforts to reach PBS II targets that were at the risk of not being met due to a decline in the programme's overall budget attributable to the impact of three exogenous shocks of high fuel import bills, high food prices, and the global financial crisis, in the 2008/2009 financial year. The rationale for Fund assistance was strong and coherent as the assistance reinforced macroeconomic stability while protecting the provision of basic services. The design of PBS II was based on two main lessons learnt from the implementation of PBS I which were the need to have few conditions for operations of this nature to ensure aid predictability and the need for donors to use country systems which had led to strong government ownership and success under PBS I. More details about the background to the programme are in Annex 5.

C. PROGRAMME OBJECTIVES AND LOGICAL FRAMEWORK

1. State the specific Development Objective(s) of this operation (as set out in the appraisal report)
To reduce poverty and improve the standard of living of Ethiopians by supporting the decentralised delivery of basic services and deepening public financial management through the strengthening of fiduciary controls, budget transparency and accountability, and enhancing the monitoring and evaluation of the PBS II Programme.
2. State how each policy action and/or tranche release condition contributes to achieving the Programme Development Objectives.
The operation focused on three main policy actions or areas and had two tranche release conditions. The policy actions and the two conditions reinforced the implementation of public financial management reforms and improvements in the delivery of basic services at decentralized levels of government thereby contributing to the achievement of the Programme Development Objectives. The first tranche release condition was that the Borrower would submit to the Fund details of the National Bank of

Ethiopia account into which the financial proceeds from the Fund would be transferred. This condition ensured that the funds are traceable so that the Borrower could appropriately account for them within its budget management system thereby instilling transparency and accountability in the system. The second tranche release condition was that the Borrower would submit to the Fund evidence of overall satisfactory performance of the programme as recorded by Aide Memoires of the Joint Review and Implementation Support (JRIS) / Joint Budget and Aid Review (JBAR) Missions. This condition reinforced the implementation of actions leading to the achievement of the Programme's development objectives.

To sustain progress in basic services delivery and to promote transparency and accountability in the allocation and utilisation of PBS programme resources, the programme was built around four “SAFE” principles and shared commitments. These are (i) Sustainability in Additionality which requires that the share of total federal block grants out of total federal expenditure should be increasing over time within a sustainable macro-economic framework ; (ii) Accountability and Fairness in terms of wide public disclosure of the allocation and utilisation of public funds at the local level and adherence to the block grant formula; (iii) Fiduciary which promotes public finance management by improving budgeting, financial reporting, internal and external audit, and procurement at the federal and sub-national levels, and (iv) Effectiveness which involves the review of the overall financing of the programme and its achievement of results in terms of improving access, quality and inclusiveness of service delivery and enhancing the monitoring and evaluation of the programme. All these principles were translated into the components and results monitoring framework of the programme such that the Fund’s conditionality framework and disbursement triggers for the programme were anchored on these principles. More details about the SAFE principles are provided in Annex 5.

3. Provide a brief assessment (up to two sentences) of the programme objectives along the following 3 dimensions. Insert a working score, using the scoring scale provided in Appendix 1.

PROGRAMME OBJECTIVES DIMENSIONS		ASSESSMENT	WORKING SCORE
RELEVANT	a) Relevant to the country's development priorities	It was very relevant to the country’s development priorities as it supported the implementation of activities prioritised by the country’s poverty reduction strategies, the PASDEP and the GTP.	4
ACHIEVABLE	b) Objectives could in principle be achieved with the programme inputs and in the expected timeframe	The objectives could be achieved with the programme inputs if sustained over time as the objectives are linked to the MDGs to be attained by the year 2015. Indeed some of them have already been achieved and Ethiopia is one of the countries likely to achieve most of the MDGs by 2015. Furthermore, the reforms and institutional capacity development activities envisaged under the programme are of a long term nature such that the full impact cannot be realized within the 3-year time-frame of the PBS II Programme.	3

CONSISTENT	c) Consistent with the Fund's country strategy paper	The programme was consistent with the governance pillar of the Country Strategy Paper for the period 2006 to 2009 (extended to 2010) and Pillar III of the Country Strategy Paper for the period 2011 to 2015 which prioritises the improvement of basic services delivery with a focus on measuring results and aid effectiveness principles.	4

4. Lay out the programme logical framework. State the expected outputs and outcomes for each action, and the indicators for measuring progress. Add additional rows if needed.

COMPONENTS	OUTPUTS	OUTCOMES	INDICATORS TO BE MEASURED
Policy Area 1(A1): Improve decentralised basic services delivery for i.e. health, education, agricultural extension, water and sanitation, and roads at the local level	Output 1 : Adequate local budgets for communities basic service requirements through increase in federal block grants to regional and woreda levels	Outcome 1 : Availability of cost-effective basic services at the sub-national government level through increased financing for basic services at regional and woreda levels	Total federal block grants (including PBS funds) as a share of total federal discretionary expenditure to increase from 34.7 % in FY 2007/2008 to 37.5% in FY 2010/2011.
	Output 2: Expanded health, education, agricultural extension services, rural roads and water and sanitation at the local level	Outcome 2: Improvements in economic and social well-being at the local levels.	Primary school net enrolment rate to increase from 83% in 2009 to 94% in 2011; agricultural productivity (major crops) to increase from 15.2 quintals per hectare in FY 2007/2008 to 18.89 quintals per hectare by FY 2010/2011; the proportion of qualified teachers at second cycle primary school to increase from 53% in FY 2007/2008 to 65% in FY 2010/2011; rural population access to potable water to increase from 61.5 % in 2009 to 85% in 2011; under five mortality rate to fall from 123 per 1,000 live births in 2007 to 85 in 2011; the ratio of health extension workers to population to fall from 1:4,369 in 2007/2008 to 1:2,500 in 2010/2011; and the per cent of kebele centres connected by all-weather roads to increase from 20 in 2007/2008 to 35 in 2010/2011.
Policy Area 2(C2): Enhance federal and local financial governance through supporting the	Output 1: Improved performance of fiduciary institutions such as the Office of the Federal Auditor General and Offices of Regional Auditor Generals	Outcome 1: Efficient and effective resource utilisation at the sub-national level through improved internal controls, internal audit, and coverage of roving audits for ORAGs and OFAG	A Public Finance Management Committee is operational with its terms of reference adopted by end-October 2010 and an internal performance audit manual is produced by end-March 2011. Train 100 internal auditors between FY

PSCAP and EMCP programmes and related institutions			2009/2010 and FY 2010/2011 and increase the coverage of roving audits for OFAG from 51% and 20% for ORAGs in FY 2009/2010 to 100% for both by FY 2010/2011.
	Output 2 :Roving audit reports that provide comfort to government and donors on control environment and utilisation of resources		
	Output 3: Public procurement management, including legal frameworks, procedures, and practices, strengthened	Outcome 2: Strengthened public procurement process	Public Procurement Directives and Manuals developed by January 2011 and adopted by at least four regions by June 2011 and Standard Bidding Documents revised and adopted by end-March 2011.
Policy Area 3(C3): Strengthen the budget process especially at the sub-national level by developing financial transparency and accountability mechanisms	Output 1 Equitable block grants for all regions' and districts' budgets through use of inter-governmental fiscal formula for allocating block grants to sub-national levels	Outcome 1 : Enhanced accountability of local officials for resource allocation and utilisation and greater budget ownership by beneficiaries of basic services	Adherence to objective intergovernmental fiscal formula for allocating block grants to sub-national levels for FY 2010/2011; number of woredas that post 'laypersons' budget and expenditure templates increases from 50% in FY 2009/2010 to 75% in FY 2010/2011; percentage of public service facilities by type that post in their facility the standardised service delivery information on budget, resource inputs, and service standards increases from 35% in FY 2009/2010 to 75% in FY 2010/2011.
	Output 2: IBEX 2.0 procured and used and publication of budgets and results	Outcome 2: Effective budgetary resource allocation and utilisation based on locally determined priorities and enhanced transparency and accountability (FTA)	Rolling out of IBEX 2.0 to at least one region by June 2011 and dissemination of service information using laymen's tools within 3 years of PBS II implementation.
Policy Area 4 (D): Strengthening Monitoring and Evaluation System of PBS sectors and financial reporting	Output 1: Terms of Reference of the Data Quality Assessment Framework	Outcome 1: Effective system quality assessments are undertaken	Terms of Reference of the Data Quality Assessment Framework are finalised, with an indication of a timetable for the execution of the sector assessments, by June 2011.

5. For each of the programme matrix's dimensions, provide a brief assessment (up to two sentences) of the extent to which programme matrix's design met the following criteria. Insert a working score, using the scoring scale provided in Appendix 1. If no log. frame exists, score this section as a 1 (one)

PROGRAMME LOG. FRAME DIMENSIONS		ASSESSMENT	WORKING SCORE
LOGICAL	a) Presents a logical causal	The PBS is an evolving programme. In this regard, its	4

	chain for achieving the development objectives	original matrix was updated during the appraisal of the Supplementary Loan (in 2010) in line with the overall/broader programme objectives. The programme matrix presents a logical link between programme activities and the achievement of the development objectives. There is a clear link between the financing of the delivery of basic services to progress on the indicators of development outcomes.	
MEASURABLE	b) Expresses objectives and outcomes in a way that is measurable and quantifiable	In the Results-based Logical Framework for the programme, the objectives and outcomes were clearly defined in terms of baseline/benchmark indicators, targets to be achieved, and sources of data to be used.	4
THOROUGH	c) States the risks and key assumptions	The risks and assumptions were stated clearly in the Logical Framework.	3

D. OUTPUTS AND OUTCOMES

I. ACHIEVEMENT OF OUTPUTS

In the table below, assess the achievement of actual VS. expected outputs for each major action. Import the expected outputs from the log. frame in Section C. Score the extent to which the expected outputs were achieved. The overall score must be calculated as the average of working scores. Override the calculated score, if desired, and provide justification.

MAJOR POLICY REFORMS		Working Score
Expected Outputs	Actual Outputs	
1. Adequate budgets for communities ' basic services through increase in federal block grants to regional and woreda levels	Federal block grants to regional and woreda levels increased from 15 billion Birr in FY 2008/2009 to 23.6 billion Birr in FY 2010/2011. The government has demonstrated its commitment to the programme by increasing its financing to 30.6 billion in FY 2011/2012 and it is projected to increase to 92 billion Birr by FY 2014/2015 in the government's macroeconomic and fiscal framework for that period. The share of block grants in federal discretionary expenditure had remained at about 35% by FY 2010/2011.	4
2. Increase in access to quality basic services of health, education, agricultural extension services, rural roads, and water and sanitation at the local level	Access to basic services had improved by the November 2011 JRIS/JBAR Mission as indicated by the increase in primary school net enrolment rate from 83% in 2009 to 85.3% in FY 2010/2011; an increase in the proportion of qualified teachers at second cycle primary school from 53% in FY 2007/2008 to 83.3% in FY 2010/2011; a rise in agricultural productivity from 15.2 quintals per hectare in FY 2007/2008 to 17.6 quintals per hectare in FY 2010/2011; a rise in rural population access to potable water from 61.5 % in 2009 to 71.3% in 2011; an improvement in the ratio of health extension workers to population from 1:4,369 in 2007/2008 to 1:2,647 in 2010/2011; and an increase in the percentage of kebele centres connected by all-weather roads from 20 in 2007/2008 to 39 by December 2010. However, as of the November 2011 JRIS/JBAR Mission, there was no evidence to show that the quality of the services had improved and several stakeholders observed that the quality of these services required improvement.	3

3. Improved performance of fiduciary institutions such as auditor generals and MoFED	The Public Finance Management Committee was operational by the November 2011 JRIS Mission and its terms of reference had been adopted by then. PFM Steering Committees were being established at regional and woreda levels and the performance audit manual had been produced by the time of the Mission. Instead of the planned 100 internal auditors to be trained and certified only 40 qualified as certified internal auditors. ORAG audit coverage was 20% while OFAG coverage was 47% by the end of FY 2010/2011 and delays in strengthening audit capacity had affected progress in this area.	2
4. Public procurement management, including legal frameworks, procedures, and practices, strengthened	The Public Procurement Directive was issued in June 2010 and distributed while the Procurement Manual was issued and distributed to all regions in September / October 2010. Thus, the Directives were issued 6 months late and the manual was issued 3 to 4 months late. The Standard Bidding Documents had not yet been finalised by the JRIS/JBAR Mission of November 2011, implying a delay of at least eight months implying that public procurement had not been strengthened as planned.	2
5.Equitable block grants for all regions and districts' budgets through use of inter-governmental fiscal formula used for allocating block grants to sub-national levels and adhered to	The performance assessments of PBS II JRIS/JBAR Missions showed that Government had consistently passed the Fairness Test by adhering to the objective intergovernmental fiscal formula for allocating block grants to sub-national levels.	4
6. IBEX 2.0 procured, used and rolled out to at least one region by June 2011 and publication of budgets and results	IBEX 2.0 had not been rolled out to any region by the November 2011 JRIS/JBAR Mission due to delays in the procurement of computer equipment and supplies. However, there was an increase in the proportion of woredas that posted their 'Laypersons' simplified budget and expenditure templates from 50% in 2009/10 to 75% in 2010/11. Similarly, the proportion of public service facilities that posted complete information on budgets and service standards is reported to have risen from 35% in 2010 to 50% in 2011.	2
7.Terms of Reference of the Data Quality Assessment Framework	The Terms of Reference of the Data Quality Assessment Framework had been finalised by June 2011 and the results of some sectoral data quality assessments were presented during the November 2011 JRIS/JBAR Mission. The socio-economic studies were either under implementation or about to commence by the time of the Mission.	4

OVERALL OUTPUT SCORE [Score is calculated as the average of working scores]	3
Check here to override the calculated score	
Provide justification for over-riding the calculated score	
Insert the new score or re-enter the calculated score	0

II. ACHIEVEMENT OF OUTCOMES

1. Using available monitoring data, assess the achievement of expected outcomes. Import the expected outcomes from the log. frame in Section C. Score the extent to which the expected outcomes were achieved or are likely to be achieved. The overall outcome score must be calculated as an average of the working scores. Override the calculated score, if desired, and provide justification.

OUTCOMES		Working Score
Expected	Actual	
1.Increased availability of cost-effective basic services at the sub-national government level through Increased financing for basic services at regional and woreda levels	Financing for basic services at regional and woreda levels increased from 15 billion Birr in 2008/2009 to 23.6 billion Birr in 2010/2011 and this contributed to an increase in access to basic economic and social services among Ethiopians. The government has consistently met the additionality test for the programme as it continually increased the federal block grants to the regions and woredas for basic services. However, given the high level of inflation recorded in the country over the same period, the increase in the level of block grants was lower in real terms. This underlines the importance of maintaining price stability in the country. Furthermore, the quality of these services needs to be improved so as to improve the quality of life of the population and this will require more financing to ensure adequate funding of non-salary operational costs.	4
2. Improvements in economic and social well-being at the local levels	As noted in 1 above, there were improvements in access to basic services in the sectors of focus that must have, in turn, contributed to improvements in economic and social well-being at the local levels as the proportion of Ethiopians living below the poverty line is estimated to have declined from 33.8 % in 2007/2008 to 27.7% in 2010/2011 (JRIS/JBAR November 2011). Furthermore, the maternal mortality rate declined from 673 deaths per 100,000 live births in 2004/2005 to 470 deaths by FY 2010/2011, compared to the target of 590 deaths by FY 2010/2011. This suggests that strong progress is being made towards achieving the MDGs. However, the recent rise in the inflation threatens to erode some of the gains under the PBS.	4
3.Efficiency and effectiveness in resource utilisation at the sub-national levels through improved internal controls ,internal audit, and coverage of audits for ORAGs and OFAG (improved public financial management)	Efficiency and effectiveness in resource utilisation at sub-national levels were being promoted through training and other forms of PFM capacity building. However, progress in this area has been much slower than planned.	3
4. Strengthened public procurement process	There was progress in strengthening the public procurement process but the timelines were missed. The Public Procurement Directive and the Public Procurement Manual were produced but adopted late by regions.	2

5.Enhanced accountability of local officials for resource allocation and utilisation and greater budget ownership by beneficiaries of basic services	The accountability of local officials in the allocation and utilisation of resources improved as indicated by the adherence to the inter-governmental fiscal formula as well as the reported increase in the publication of (and discussions about) simplified budgets and service delivery results at the regional and woreda levels to 100 %. Furthermore, there was an increase in the proportion of basic service units that posted standardised service delivery templates with complete information on budgets, resource inputs and services standards to 100% by the November 2011 JRIS/JBAR Mission.	4
6.Effective budgetary resource allocation and utilisation based on locally determined priorities and enhanced transparency and accountability (FTA)	There was an increase in the number and proportion of woredas that posted their 'Laypersons' simplified budget and expenditure templates and the public service facilities that posted complete information on budgets and service standards to 100% for both. This suggests that there was an increase in the participation of citizens in the monitoring and evaluation of the budgets. However, there was no evidence yet on citizens' feedback into the resource allocation process based on locally determined priorities, which is what PBS II also sought to address.	3
7.Effective data system quality assessments are undertaken	Progress on these assessments was greater than planned. The Ethiopian Data Quality Assessment Framework had been prepared and three sectors' (health, education, and rural roads) data systems had been assessed by the time of the November 2011 JRIS mission. This is likely to contribute to improvements in the quality of data collection systems at the national, sectoral, and lower levels.	4
	OVERALL OUTCOME SCORE [Score is calculated as the average of working scores]	3
	Check here to override the calculated score	
Provide justification for over-riding the calculated score		
	Insert the new score or re-enter the calculated score	0

2. Poverty and social impact. Comment on the programme's actual or expected effect on poverty, gender, access to public service, inclusion of vulnerable groups and other key social dimensions.

There was no recent data and information that can be used to specifically assess the poverty and social impacts of the PBS II Programme at the time of the PCR Mission but a study of the socio-economic impacts of the programme was about to be commissioned. However, as observed in Section D above, the programme contributed to improvements in access to basic economic and social services, especially among the poor. These improvements appear to have contributed to the fall in the proportion of Ethiopians living below the poverty line from 33.8% in FY 2007/2008 to an estimated 27.7% in FY 2010/2011. In terms of gender, the programme contributed to a reduction in the gender gap in access to primary education whereby gender parity has almost been achieved due to increased girls' net enrolment from 39%, when it was 49% for boys, in 2002, to 86.5% when it was 89.3% for boys, in 2010, and the girls' primary school completion rate increased from 38%, when it was 48% for boys, in 2002, to 46.2 % while it was 52.5% for boys, in 2010. This indicates that the gender gap in access to primary education was narrowing in favour of girls over time and, clearly, the PBS Programme contributed to this trend. The PBS programme would also be expected to have contributed to a fall in the demand for girls' labour to collect water as access to potable water improved and an increase in agricultural incomes due to improvements in agricultural extension services thus increasing the capacities of families to provide essentials for girls' education attendance. The other important impact on gender was the reduction in the maternal mortality rate from 673 deaths per 100,000 live births in 2005 to an estimated 470 in 2010/2011. This shows that Ethiopia is on track towards achieving most of the MDGs and there is need to sustain this.

3. Risks to sustained achievement of outcomes. State the factors that affect, or could affect, the long-run or sustained achievement of program outcomes. Summarize the current macroeconomic framework, which should be described in more detail in Annex 3. Indicate if any new action or follow-up operation is recommended to help sustain outcomes.
Three main factors that could affect the long-run or sustained achievement of programme outcomes are: i) the current high rate of inflation which threatens to reduce the purchasing power of the financial resources budgeted for the implementation of the programme and the real incomes of the personnel (such as teachers) who receive salaries and other benefits from the programme activities and the primary beneficiaries of the programme, the poor (See Annex 3 for more details); ii) a possible recurrence of droughts and famines (that Ethiopia has experienced in the recent past) that can destabilise the economy and reduce government's ability to finance the programme due to the need to provide for food relief needs in the budget; iii) the relatively high population growth rate of 2.6% per annum which means that the programme has to cater for increased demand for basic services from an expanding population. This can also result in a decline in the quality of the basic services supported by the programme; and iv) a competition for public resources from the mega federal infrastructure -projects envisaged under the Growth and Transformation Plan of the country may reduce resource flow for basic services delivery at the local level such that the provision of quality services at the local level may become difficult. It is in the light of the above challenges and Ethiopia's limited financial resources that a follow-up operation, PBS III, with strong accountability mechanisms for basic services delivery at the local level, is recommended to sustain the outcomes of the programme. In the future programme, consideration should also be given to enhancement of regional revenue mobilization, and the expansion of income and employment opportunities at the sub-national levels so as to further enhance sustainability of progress in increasing the coverage and quality of basic services.

E. PROGRAMME DESIGN AND READINESS FOR IMPLEMENTATION

1. State the extent to which the Fund and the Borrower ensured the programme was commensurate with the Borrower's capacity to implement by designing it appropriately and by putting in place the necessary implementation arrangements. Consider all major design aspects, such as: - extent to which lessons learned from previous policy-based lending operations in the country were taken into account (please cite key PCRs), - the extent to which the project was informed by robust analytical work (please cite key documents), -rationale for the selection of conditionalities (number, theme, prior or post approval conditions), - how well Fund and Borrower assessed the capacity of the implementing agencies, - scope of consultations and partnerships, and - provisions made for technical assistance. [300 words maximum. Any additional narrative about implementation should be included at Annex 5: Programme Narrative]
In designing the programme, the Fund and the Borrower considered the Borrower's implementation capacity by including capacity building components. The staff appraisal report stressed the need to address weak institutional capacities in a holistic manner such that PBS II included various capacity building initiatives at the federal, regional and woreda levels and the Fund subsequently provided a technical assistant to the PBS Secretariat to support its activities. The Fund and the Borrower also drew significantly from lessons learned from the implementation of PBS I, especially from the Programme Completion Report (PCR) for PBS I. One of the key lessons highlighted in that PCR is that a large number of conditions and had caused disbursement and implementation delays under PBS I. This led to the few and relatively simple conditions adopted for PBS II which improved predictability in the flow of financing. The design was also informed by strategic frameworks and robust analytical works as the Fund's Country Strategy Paper 2006-2009 (extended to 2010);; the Country Governance Profile of March 2009; the Country Policy and Institutional Assessment (CPIA); the Public Expenditure and Financial Accountability (PEFA) assessments of 2007 and 2010; and the macroeconomic assessments of Ethiopia by the International Monetary Fund (IMF), especially the May 2008 and June 2010 Article IV Consultations Staff Reports.

The consultations and partnerships under the Programme involved mostly government and the development partners that co-financed the PBS I and II programmes with the support of the PBS Secretariat. Strengthening the secretariat through staffing to enhance its analytical and coordination capacity was identified as crucial in strengthening joint supervision and coordination of the programme. The consultation and partnership was engineered in accordance with the SAFE principles with emphasis on managing results and effectiveness of the programme.

2. For each dimension of programme design and readiness for implementation, provide a brief assessment (up to two sentences). Insert a working score, using the scoring scale provided in Appendix 1.

PROGRAMME DESIGN AND READINESS FOR IMPLEMENTATION DIMENSIONS		ASSESSMENT	WORKING SCORE
REALISM	a) Programme conditionality is matched with country capacity and political commitment.	The Fund set two relatively simple conditions for the disbursement of funds which reinforced programme implementation. This conditionality was an improvement over the PBS I numerous (13) conditions which delayed the disbursement of funds and this change took into account the country's administrative capacities and political and financial commitments to the programme.	4
RISK ASSESSMENT AND MITIGATION	b) Programme design includes adequate risk analysis and mitigation measures.	The analysis of the risks that were anticipated for the programme and the mitigation measures identified were satisfactory. However, this analysis was not reflected sufficiently and consistently in the Results-Based Logical Frameworks for the two operations.	3
USE OF COUNTRY SYSTEMS	c) Financial management, procurement, monitoring and/or other systems are based on those already in use by government and/or other partners.	Yes. The Fund has satisfactorily used these country systems thereby averting implementation delays that could have arisen had it insisted on using its own systems.	4

For the following dimensions, provide separate working scores for Fund performance and Borrower performance:			WORKING SCORE	
			Fund	
CLARITY	d) Responsibilities for programme implementation were clearly defined.	The Ministry of Finance and Economic Development was clearly designated as responsible for the execution of the programme while the sector ministries responsible for health, education, agriculture, water and sanitation, and roads were required to work with sub-national governments to implement activities at the decentralized levels of government.	4	4
MONITORING READINESS	e) Monitoring indicators and monitoring plan were agreed upon before project launch.	Yes. However, some of the indicators specified for the components financed by the Fund (e.g. the assessment of the quality of services at the woreda level) were not being captured consistently in the JRIS/JBAR aide-memoires. This was partly because the Fund finalized its	3	3

		results matrix ahead of the other PBS Donors and a few of the indicators changed after the Fund had approved its operation.		
BASELINE DATA	f) Baseline data were available or were collected during project design.	Baseline data were available and more data was collected during appraisal.	4	4

F. IMPLEMENTATION

1. State the major characteristics of programme implementation with reference to:
- timing of tranche releases,
- waivers of conditions or triggers, if any,
- effectiveness of Fund supervision,
-participation of field office in continuous supervision/ in donor coordination arrangements and in ensuring effective policy dialogue, and
- effectiveness of Borrower oversight.

Comment on the rationale for any waivers of tranche release conditions. [200 words maximum. [Any additional narrative about implementation should be included at Annex 5: Project Narrative.]

There were no waivers for the tranche release conditions. The disbursement of funds under the programme was remarkably efficient and the supplementary loan was arranged to respond to additional resource requirements for the programme, demonstrating flexibility. The operation was disbursed fully about six months before its closure, indicating that programme implementation was efficient. The Fund's supervision was effective hence the efficient disbursement of funds. The Field Office assumed an effective leadership role for the PBS II Programme as well as in policy dialogue and this role was commended highly by both the Borrower and the other co-financiers. The Borrower's oversight of the Programme was effective as they influenced the direction of the programme and demonstrated strong ownership of the programme through their high political and financial commitments to improving decentralized basic service delivery.

2. Comment on the role of other partners (e.g. other International Financial Institutions, donors, UN agencies, etc.). Assess the effectiveness of co-financing arrangements and of donor coordination, if applicable.

The World Bank and the European Union are the other multilateral development partners that participated in the programme. The bilateral donors involved in the programme are DFID (US $ 274 million) , Canada, Germany, Spain and Ireland who contributed at least US$ 20 million each and Austria, the Netherlands and Italy who contributed just over US$ 10 million each. The PBS Secretariat facilitated the work of all the PBS Donors and this contributed to the effectiveness of the co-financing arrangement. The World Bank and the Fund were co-chairs of the development partners.

3. Harmonization and Alignment. State whether the Fund made explicit efforts to adhere to the following Paris Declaration Principles:

Aid flows were aligned to national priorities	The Fund explicitly aligned its financing to the national priorities spelt out in the Plan for Accelerated Sustained Development to End Poverty and the Growth and Transformation Plan.
Capacity was strengthened by coordinated support	Capacity strengthening was undertaken at the federal, regional and woreda levels and the Fund supported specific capacity building initiatives for public finance management and technical assistance for the PBS Secretariat. The other donors supported capacity building in the other areas and all the capacity strengthening activities were coordinated effectively
Parallel PIU was avoided	Due to the complexity of the programme, DPs established a PBS Secretariat which works and liaises with the Channel One Programme Coordination Unit (COPCU) of the Ministry of Finance and Economic Development in programme coordination. The PBS Secretariat facilitates the coordination of PBS Development Partners with the government. It also enhances the analytical capacity of COPCU in monitoring the effectiveness of the programme. The PBS Secretariat and COPCU are not PIUs such that parallel PIUs were avoided.

Aid was more predictable	The aid provided by the Fund was quite predictable and the PBS Donors had an arrangement whereby their future financial commitments to the programme were discussed. However, in some instances, government factored into the national budget some donor funding for which commitments had not been firmed up and this tended to reduce the predictability of donor funding for the programme. Similarly, some donors delayed their disbursement of funds to the PBS.
Common aid arrangements were used	The most important common aid arrangements that were used were the joint performance monitoring framework through the JRIS/JBAR structure and use of country disbursement, procurement, financial reporting and audit systems, all of which reduced the transaction costs of both the government and the donors.
Missions were conducted jointly with other partners	Yes. Appraisal and supervision missions were conducted jointly with other partners.
Analytic work was undertaken jointly with other partners.	Analytical work was largely undertaken with the involvement of other partners and not necessarily jointly with other partners. Analytical studies, such as the PEFA, tend to be identified largely with the lead sponsor rather than the whole group of donors. On the other hand, the Fund participated in the 2010 Public Finance Review, a joint product with the World Bank and few other donors.

4. For each dimension of programme implementation, assess the extent to which the following criteria were met. Provide a brief assessment (up to two sentences) and insert a working score, using the scoring scale provided in Appendix 1.

PROGRAMME IMPLEMENTATION DIMENSIONS		ASSESSMENT		WORKING SCORE
TIMELINESS	a) Extent of project adherence to the original closing date. If the number on the right is: below 12, 4 is scored; between 12.1 to 24, 3 is scored; between 24.1 to 36, 2 is scored; beyond 36.1, 1 is scored.	Difference in months between original closing date and currently expected closing date		4
		-6		
FUND PERFORMANCE	b) Fund enforced:			
	Environmental Safeguards (if applicable)	Not Applicable. The operations were classified as of Category 3 and they would not be expected to have had any direct effects on the environment.		4
	Fiduciary Requirements	Fiduciary requirements were enforced strongly during the JRIS/JBAR Missions.		4
	Conditions and Triggers	The Fund enforced the conditions and triggers very strongly. The Fund actively participated in in all JRIS/JBAR missions and clearance that conditions had been met was always sought from the Legal Department.		4
	c) Fund provided quality supervision in the form of skills mix and practicality of solutions	Annex 2 shows that the Fund provided its senior staff, mostly from the field office, for JRIS/JBAR supervision missions. This skills mix was adequate considering that other skills/ disciplines were provided by the other PBS donors and the missions recommended solutions to implementation problems which government addressed to a reasonable extent.		4
	d) Fund provided quality management oversight	The Fund provided its senior staff from both headquarters and the field office for the management of the programme. This skills mix was adequate considering that other skills/ disciplines were provided by the other PBS donors and the missions recommended solutions to implementation		4

		problems which government addressed to a reasonable extent.	
BORROWER PERFORMANCE	d) Borrower complied with:		
	Environmental Safeguards (if applicable)	Not Applicable. The operations were classified as of Category 3 and they would not be expected to have had any direct effects on the environment	4
	Fiduciary Requirements	The Borrower complied with the fiduciary requirements for PBS II satisfactorily.	4
	Conditions and Triggers	The Borrower complied with conditions and triggers for the release of funds under the two operations and this resulted in the fast and timely disbursement of funds to PBS II Programme.	4
	e) Borrower was responsive to Fund supervision findings and recommendations	The Borrower was responsive to the Fund Supervision findings and recommendations although JRIS/JBAR missions' recommendations on audits and procurement have not been addressed satisfactorily apparently due to capacity constraints at the local level.	3
	f) Borrower collected and used monitoring information for decision making	The Borrower collected and used monitoring information for decision making. However, there is need to improve access to data and information on sanitation and the assessments of the quality of basic services as required for the logical frameworks of the Fund's two operations.	3

G. COMPLETION

1. IS THE PCR DELIVERED ON A TIMELY BASIS, IN COMPLIANCE WITH FUND POLICY?

Date project reached 98% disb. Rate (or closing date if applicable)	Date PCR was sent to pcr@afdb.org MM/DD/YY	Difference in months	WORKING SCORE if the difference is 6 months or less, a 4 is scored. If the difference is 6.1 or more, a 1 is scored
06/27/2011		-6	4

2. Briefly describe the PCR Process. Describe the Borrower's and co-financers' involvement in producing the document. Highlight any major differences of opinion concerning the assessments made in this PCR. Describe the team composition and confirm whether a site visit was undertaken. Mention any major collaboration from other development partners. State the extent of field office involvement in producing the report. Indicate whether comments from Peer Reviewers were received on time (provide names and positions of Peer Reviewers).
[100 words maximum]

The PCR process was coordinated by the Borrower's Ministry of Finance and Economic Development which arranged all consultations or meetings with the key stakeholders; provided data and information necessary for the PCR; and organised a wrap-up meeting for the Mission. The team included Mr Victor Ndisale, Chief Governance Expert, OSGE.1 and Dr Milton Kutengule, Economist (OSGE.1 Consultant). The field office, through Mr Peter Mwanakatwe, Chief Country Economist, ETFO, and Mr Admit Zerihun, Macroeconomist, ETFO, guided the mission and made significant inputs into the mission's deliverables. The key stakeholders included other development partners that provide financial support to the PBS II Programme who provided data and information through the PBS Secretariat and presentations at the JRIS/JBAR Mission meetings that coincided with the PCR Mission. The PBS Secretariat also provided much information on programme inputs and performance which has contributed significantly to the analysis in this PCR. There was no major difference of opinion on the assessments made in this PCR. There was no site visit during the mission but a visit was made to the Oromia Regional Government offices where the mission was briefed on the operations of the programme from a regional perspective. The PCR was referred to peer reviewers and the comments that were received have contributed to improvements to this document.

H. LESSONS LEARNED

Summarize key lessons for the Fund and the Borrower suggested by the programme's outcomes
[250 words maximum. Any additional narrative about lessons learned, if needed, must be placed in Annex 5: Project Narrative]

The programme's outcomes suggest the following lessons for both the Fund and the Borrower:

1. Adherence to the Paris Declaration Principles facilitated the implementation of the operation. The Fund's flexibility, use of country systems, responsiveness to changing PBS II needs, strong partnership with government and other PBS donors, and the limited number of conditionality facilitated the disbursement of its funds for the programme contributing to aid effectiveness.

2. The resurgence of high inflation towards the end of the PBS II Programme threatens to undermine the impressive gains made so far under the programme. This underscores the importance of strengthening macroeconomic policy dialogue under the PBS

3. Coordination of activities between government and the development partners was sound. This, coupled with government's strong commitment to the Programme, has resulted in improved decentralised service delivery which is contributing to the achievement of the MDGs and sustainability of the programme. This is evidence that more can be achieved through joint approaches than separate initiatives. There is need, however, to increase effort in capacity building especially in the area of public financial management (financial reporting, procurement, budgeting, and audits) at the local levels which recorded relatively slow progress and also to enhance revenue collection, retention and use at the sub-national levels so as to enhance the sustainability of the programme. Due consideration should also be given to the sustainability of capacity through appropriate incentives to ensure staff retention and efficient allocation or engagement.

4. While the linkages between PBS and sectoral programmes improved under the PBS II Programme, this needs to be strengthened further so as to increase synergies and ensure coherence between the programme and sectoral and cross cutting initiatives. This would help further enhance the linkage between the programme, sectoral operations and the results of these initiatives as well as improve dialogue around the quality of decentralized basic services.

5. The results framework used by the Fund for PBS monitoring has some indicators which are not in the JRIS/JBAR results framework because the Fund's framework was prepared earlier than the JRIS/JBAR framework which has also changed over time. The design of specific donors' operations to finance multi-donor programmes such as the PBS Programme requires coordinated timing so that they are designed concurrently. This can improve linkages between donor-specific components and the broader programme, including results monitoring.

I. RATINGS SUMMARY

All working scores and ratings must be found in the relevant section in the PCR. For example, please insert the "Overall Output score" in Section D.I. in the "Achievement of Outputs" box below.

CRITERIA	SUB-CRITERIA	WORKING SCORE
PROGRAMME OUTCOME	Achievement of outputs (insert score from Section D.I.)	3
	Achievement of outcomes (insert score from Section D.I.)	3
	Timeliness (insert score from Section F.4.)	4
	OVERALL OUTCOME SCORE (score average)	3
FUND PERFORMANCE	Design and Readiness	
	Programme Objectives are relevant to country development priorities. (Insert score from Section C.3.)	4
	Programme Objectives could in principle be achieved with the project inputs and in the expected time frame. (insert score from Section C.3.)	3
	Programme Objectives are consistent with the Fund's country strategy paper (insert score from Section C.3.)	4
	The log. frame presents a logical causal chain for achieving the programme development objectives. (insert score from Section C.5.)	4
	The log. frame expresses objectives and outcomes in a way that is measurable and quantifiable. (insert score from Section C.5.)	3
	The log. frame states the risks and key assumptions. (insert score from Section C.5.)	3
	Conditionality is matched with country capacity and political commitment. (insert score from Section E.2.)	4

	Programme design includes adequate risk analysis and mitigation measures. (insert score from Section E.2.)	3
	Financial management, monitoring and/or other systems are based on those already in use by government and/or other partners. (insert score from Section E.2.)	4
	Responsibilities for programme implementation were clearly defined. (insert score from Section E.2.)	3
	Monitoring indicators and monitoring plan were agreed upon. (insert score from Section E.2.)	3
	Baseline data were available or collected during programme design. (insert score from Section E.2.)	3
	DESIGN AND READINESS SUB-SCORE (score average)	3
	Supervision	
	Fund enforced:	
	Environmental Safeguards (if applicable) (insert score from Section F.4.)	4
	Fiduciary Requirements (insert score from Section F.4.)	3
	Covenants and Triggers (insert score from Section F.4.)	4
	Fund provided quality supervision in the form of skills mix and practicality of solutions. (insert score from Section F.4.)	4
	Fund provided quality management oversight. (insert score from Section F.4.)	4
	PCR was delivered on a timely basis (insert score from Section G)	4
	SUPERVISION SUB-SCORE (score average)	4
	OVERALL FUND PERFORMANCE SCORE (score average)	3
BORROWER PERFORMANCE	Design and Readiness	
	Responsibilities for programme implementation were clearly defined. (insert score from Section E.2)	3
	Monitoring indicators and monitoring plan were agreed upon before project launch. (insert score from Section E.2)	3
	Baseline data were available or collected during programme design. (insert score from Section E.2)	3
	DESIGN AND READINESS SUB-SCORE (score average)	3
	Implementation	
	Borrower complied with:	
	Environmental Safeguards (if applicable) (insert score from Section F.4)	4
	Fiduciary Requirements (insert score from Section F.4)	2
	Conditions and Triggers (insert score from Section F.4)	4
	Borrower was responsive to Fund supervision findings and recommendations. (insert score from Section F.4)	3
	Borrower collected and used monitoring information for decision-making. (insert score from Section F.4)	3
	IMPLEMENTATION SUB-SCORE (score average)	3
	OVERALL BORROWER PERFORMANCE SCOR (score average)	3

J. PROCESSING		
STEP	**SIGNATURE AND COMMENTS**	**DATE**
Sector Manager Clearance		19/12/2011
Regional Director Clearance		28/12/2011
Sector Director Approval		29/12/2011

APPENDIX 1

Scale for Working Scores and Ratings

SCORE	EXPLANATION
4	Very Good- Fully achieved with no shortcomings
3	Good- Mostly achieved despite a few shortcomings
2	Fair- Partially achieved. Shortcomings and achievements are roughly balanced
1	Poor- Very limited achievement with extensive shortcomings
NA	Non Applicable

Note: The formulas round up or down for decimal points. Only entire numbers are computed.

LIST OF ANNEXES

Mandatory

1. Project Costs and Financing by sources of funds
2. Fund Inputs. List the key team members, and their specialties, during preparation and supervision. Provide a consolidated list of Preparation, Supervision and Completion Missions in chronological order. Provide the date and ratings of the last supervision report.
3. Assessment of Macroeconomic Developments. Outline key characteristics of the macroeconomy before, during and after the operation, with specific reference to BOP and fiscal balances. State the extent to which the country is on track with any IMF program.
4. List of Supporting Documents

Optional

5. Project Narrative. Key factors not covered in the main template that affected the design and implementation of the project. Such factors, both positive and negative, could include: global economic and financial conditions, climate and weather, political changes, contractual or personnel matters, technical or legal issues, and interactions with other partners. If any of these factors is significant enough to affect the evaluation ratings, it should be noted in the template with a reference to this annex.

Annex 1: Ethiopia PBS II Program – Project Costs and Financing by Sources of Funds (2008-2011)

Source or Donor	Amount (in US$ million)	Donor's Share of Total Budget Support (%)	Remarks
World Bank	933.0	52.13	This includes original financing of US$ 520,000,000 and US$413,000,000 as additional financing.
AfDB	271.9	15.15	This includes the original grant of UA 110,000,000 and the supplementary loan of UA 72,600,000.
European Union	66.8	3.73	
DFID	313.2	17.50	This includes US$ 295,300,000 original financing plus US$17,900,000 additional financing.
Germany (KfW)	77.0	4.30	This includes US$42,000, 000 original financing plus US$35,000,000 as additional financing.
Spain	40.7	2.27	
Ireland	32.9	1.84	
CIDA	22.3	1.24	
Austria	10.9	0.61	
Netherlands	10.9	0.61	
Italy	10.2	0.56	
TOTAL	1,789.8	100.00	

Sources: 1) African Development Fund (2008) PBS II Grant Appraisal Report No. ADF/BD/WP/2008/150.
2) African Development Fund (2010) PBS II Loan Appraisal Report No. ADF/BD/WP/2010/118.
3) PBS Secretariat documents provided electronically in November 2011.

Annex 2: Fund Inputs

Order	Type of Mission	Date of Mission	Key Members and their Specialities
1	Appraisal (Grant)	September-October 2008	Jerry Mutonga, Chief Budget Officer, OSGE.1, Peter Mwanakatwe, Chief Country Economist, ETFO, and Girma Woldetsadik, Social Development Specialist, ETFO.
2	Supervision	18-22 May 2009	Ms. Chigomezgo Mtegha, Senior Governance Expert, OSGE.1; Peter Mwanakatwe, Chief Country Economist, ETFO; Admit Zerihin, Macroeconomist, ETFO; and Mrs Senidu Fanuel, Financial Management Specialist, ETFO.
3	Supervision	November 2009	Victor Ndisale, Chief Governance Expert, OSGE.1; Peter Mwanakatwe, Chief Country Economist, ETFO; Mrs Senidu Fanuel, Financial Management Specialist, ETFO; and Admit Zerihun, Macroeconomist, ETFO.
4	Supervision	12- 23 April 2010	Lamin Barrow, Resident Representative, ETFO; Peter Mwanakatwe, Chief Country Economist, ETFO; Frank Mvula, Regional Procurement Coordinator, KEFO; Admit Zerihun, Macroeconomist, ETFO; and Tefri Menkir, water and Sanitation Expert, ETFO.
5	Appraisal (Supplementary Loan)	26 July-06 August 2010	Victor Ndisale, Chief Governance Expert (Macroeconomist), OSGE.1; Peter Mwanakatwe, Chief Country Economist, ETFO; Shirley Chinien, Principal Economist, OSGE.1; Halima Hashi, Principal Country Programme Officer; ETFO, Senidu Fanuel, Financial Management Specialist, ETFO; and Admit Zerihun, Macroeconomist, ETFO; Joachim Harnack, Macroeconomist, Consultant, OSGE.1; Indira Campos, Economist, Consultant, OSGE.1; and Chekol Kidane, Socio-economist; Consultant, OSGE.1.
6	Supervision	08 November -09 December 2010	Peter Mwanakatwe, Chief Country Economist, ETFO; Admit Zerihun, Senior Macroeconomist, ETFO; and Fasil Asaye, Senior Procurement Officer, ETFO.
7	Supervision	9-19 May 2011	Lamin Barrow, Resident Representative, ETFO; Peter Mwanakatwe, Chief Country Economist, ETFO; Admit Zerihun, Macroeconomist, ETFO; and Mrs Senidu Fanuel, Senior Financial Management Specialist, ETFO.
8	Supervision	October 31-November 14 2011	Victor Ndisale, Chief Governance Expert, OSGE.1; Justin Murara, Chief Social Protection Expert, OSHD; Peter Mwanakatwe, Chief Country Economist, ETFO; Fabrice Sergent, Principal Health Analyst, OSHD; Mulle Chikoko, Principal Social Protection Officer, OSHD; Admit Zerihun, Senior Macroeconomist, ETFO; and Milton Kutengule, Economist (OSGE.1 Consultant).
9	Completion	October 31-November 14 2011	Victor Ndisale, Chief Governance Expert, OSGE.1; Peter Mwanakatwe, Chief Country Economist, ETFO; Admit Zerihun, Macroeconomist, ETFO; and Milton Kutengule, Economist, (OSGE.1 Consultant).

Annex 3: Assessment of the macroeconomic developments

For the past six years, Ethiopia's economy has enjoyed strong growth, mainly driven by government-led developmental policies that focused on public investment in infrastructure and basic services, commercialization of agriculture and export promotion. Growth averaged 11.2% for the period FY 2005/06–2010/11, placing Ethiopia among the top performing economies in Africa, with significant prospects for achieving the MDG goal of halving income poverty by 2015. The recent growth has been broad based with the services sector, manufacturing and construction growing at more than 10 percent. Ethiopia's robust growth performance and considerable development gains of the past years came under threat because of severe macroeconomic challenges facing the country. Macroeconomic imbalances began to emerge in FY 2007/08 mainly as a result of fuel, food and financial crises. At the inception of PBS II, Ethiopia faced the twin challenges of high inflation and a difficult balance of payments situation. End-of-period inflation rate had reached a historical peak of 64% in July 2008 and food inflation to 85%. Rising food inflation had a particularly adverse effect on the urban poor. The rising inflation was due to a combination of factor, among which were strong domestic demand, the global oil price shock, rapid money supply as well as domestic supply constraints. Rising world oil prices in FY 2008/09 increased Ethiopia's fuel import bill by an estimated US $ 1 billion, resulting in depletion of foreign exchange reserves to less than two months' worth of imports of goods and services.

Indicator	2006/07	2007/08	2008/09	2009/10	2010/11
Real GDP Growth Rate (%)	11.8	11.2	10.0	10.6	11.4
Average Annual Consumer Price Index (%)	17.0	25.3	36.3	2.9	18.1
Fiscal Balance, including grants (% of GDP)	-3.1	-2.9	-0.9	-1.7	-1.6
Fiscal Balance, excluding grants (% of GDP)	-7.6	-7.0	-5.2	-4.6	-6.6
Current Account Balance, including grants (% GDP)	-4.2	-5.6	-5.0	-4.0	0.8
External Debt (% of GDP)	11.8	10.4	13.5	18.1	19.4
Exchange Rate (Birr per US$, end of period)	9.0	9.6	11.8	12.89	16.11
Gross Reserves (months of imports cover)	2.1	1.2	1.8	2.1	3.1

Sources: AfDB (2011) African Statistical Yearbook 2011, page 46, Table 2-2; IMF – Ethiopia Shocks Facility, Staff Reports of July 2008 and June 2010; African Development Fund- PBS II Supplementary Loan Appraisal Report 29 October 2010; MOFED 2011: a & b.

The Government of Ethiopia responded through fiscal and monetary tightening, as well as administrative measures to contain inflation. The policy response included: the increase in the minimum reserve requirements to restrain monetary growth and the temporary ban of cereal exports. To mitigate the impact of inflation on the poor, the Government introduced wheat subsidies. In August 2009, the International Monetary Fund (IMF) approved a US$ 240.6 million arrangement for Ethiopia under the Exogenous Shocks Facility.

The Government's adjustment efforts paid off, with macroeconomic stability largely restored in 2009/10. Domestic borrowing has been contained within 1.5% of GDP. By end 2010, inflation had declined to 8.2%, due largely to good agricultural harvests and stringent monetary policy stance, including credit ceilings and upward adjustment in commercial banks' minimum reserve requirements from 5 to 15%.

Moreover, international reserves recovered to 2.2 months of imports at end-June 2010, helped notably by increased external financing and exchange rate adjustments (with devaluations of 5% each in January and June 2010, and 16.7% in September 2010). Although the trade deficit deteriorated somewhat in dollar terms in FY 2009/10, the value of exports increased by 16.4% over FY 2008/09, driven by buoyant volumes, and the terms of trade improved (with the value of imports increasing by 12.7%). Furthermore, remittances remained stable in FY 2009/10, while foreign direct investment (FDI) rose by 20%.

The high inflation which was largely contained in 2009/10 re-emerged from the first half of 2010/11. By August, 2011, year to year inflation had reached 40.6%, with food inflation accelerating to 54%. The causes of Ethiopia's recent episode of high inflation include rapid reserve money growth; the surge in global commodity prices; the drought; rising domestic demand pressures; and structural factors including rigidities in food markets.

In 2010/11, reserve money grew by 41% against the target of 8%; the surge in reserve money is attributed mainly to Government borrowing from central bank through direct advances to cover shortfalls in financing. The rapid build-up in foreign exchange reserves (which reached 3.1 months of import cover in July 7, 2011) has also contributed to rapid reserve money growth, in the absence of adequate tools for sterilizing such large injections of liquidity in the economy.

The Government has in recent months tightened further its monetary policy to control inflation. Government will no longer borrow from the central bank via direct advances and has targeted reserve money growth to shrink by 3.9 per cent in 2011/12. The Treasury bill market has been reactivated to support Government's monetary policy stance and reduce excess reserve holdings of Commercial Banks.

The Government's fiscal policy aims to maintain a prudent fiscal stance while continuing the strong investment in physical and social infrastructure. The centrepiece of Government's fiscal policy has been the strengthening of domestic revenue mobilization (particularly tax). Revenue collection performance has seen a significant improvement owing to vigorous tax reform implementation and improved tax enforcement. Government revenue increased to ETB 85.6 billion in 2010/11 from about Birr 24.3 billion in 2005/06, by about 30% per annum on average.

Sound fiscal policies have led to a decline in the fiscal deficit including grants from 1.7% of GDP in 2009/10 to 1.6 % of GDP in 2010/11. Despite fiscal consolidation, pro-poor expenditures, including infrastructure, continue to dominate spending with a share of 67% in FY 2010/11. The additional fiscal space created by strong revenue growth was used for spending on basic services and core infrastructure. Following the resurgence of high inflation, fiscal policy for FY 2011/12 has been tightened further through the adoption of the cash budgeting system and elimination of domestic financing from the Central Bank.

	2005/06	2007/08	2009/10	2010/11
Tax revenue (million ETB)	14,159	23,801	43,318	58,981
growth	14.2%	37.2%	49.4%	36.2%
Total Revenue	24,251	39,705	66,240	85,611
growth	20.4%	31.2%	21.3%	29.2%
Deficit including grant	6,163	7,210	6,358	8,220
In per cent of GDP				
Tax revenue	10.8%	9.6%	11.3%	11.5%
Total Revenue	18.4%	16.0%	17.3%	16.7%
Deficit including grant	4.7	2.9	1.7	1.6

The current account deficit deteriorated steadily over the past few years due to increases in the demand for imports by an average of 21% per annum between FY 2005/2006 and FY 2008/2009 (MOFED 2011:23). However, the setting has changing slightly recently. Total merchandise export proceeds during 2010/11 amounted to USD 2.75 billion, representing a 37.1% annual growth compared to the preceding fiscal year. Increased volume of exports and improved international prices of key export commodities were the major reasons for this remarkable export performance. On the other hand, total import bills contracted slightly by 0.2 per cent vis-à-vis the preceding year and stood at USD 8.25 billion. As a result of significant export growth and slight decline in total import of goods, the deficit in trade balance narrowed by 12.1% to USD 5.51 billion from USD 6.3 billion in the previous year. Export coverage of import also improved to 33.3 per cent from 24.2 per cent. Net services receipts rose sharply by 50.4 per cent in 2010/11 and reached USD 688.1 million largely due to increased net receipts from travel, transport and government services despite the significant rise in net payment for other services. Similarly, net private transfers recorded a 16.7% growth and reached USD 3.2 billion as the receipts of individuals' cash remittances surged sharply by 87.4% to USD 1.5 billion. As a result, the current account balance (including public transfer) improved significantly by 116.7% to a surplus of USD 199.8 million against a USD 1.2 billion deficit in the preceding fiscal year. Similarly, the surpluses in capital account increased by 24 per cent to USD 2.5 billion as a result of a large increase in long term net loan disbursements and estimated FDI inflows by 33 and 30 per cent respectively. As a result, NBE's gross reserves as at July 07, 2011 were adequate to cover 3.1 months of imports of goods and services.

Annex 4: List of Supporting Documents

1. African Development Bank Group. Federal Democratic Republic Of Ethiopia Country Strategy Paper 2011-2015, April 2011.

2. African Development Bank Group. Ethiopia 2006-2009 Country Strategy Paper. Country Operations Department North, East & South June, 2006.

3. African Development Bank. Ethiopia Country Portfolio Performance Report. Regional Department. OREB East Region B, October 2008.

4. African Development Bank. Federal Democratic Republic of Ethiopia. Country Governance Profile. Governance, Economic & Financial Reforms Department (OSGE), Country Regional Department East (OREB), March 2009.

5. African Development Bank. African Statistical Yearbook 2011.

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Annex 5: Programme Context or Background

The Protection of Basic Services (PBS) Programme was designed in response to the political crisis and the disturbances following the May 2005 general elections which were disputed by the opposition. Several donors, including the African Development Fund, had been providing direct budget support to Ethiopia. However, following the post-election violence, the donors decided to suspend their budget support as the government's actions threatened to undermine the trust and the strong partners built overtime. The suspension was based on the perceived risks that untied or flexible budget support would be diverted from the provision of basic services that would benefit the poor to political constituencies that supported the government. The donors sought assurance that the government's and their funding would be channeled to the lowest tier of government (woredas or districts and kebele) responsible for basic service delivery and that the funds would be allocated in a fair and accountable manner, without political capture or bias, and that government would allow civil society groups to effectively engage in the basic service delivery agenda.

Prior to the suspension of budget support, Ethiopia had been experiencing improvements in social indicators due to increased budgetary allocations to decentralized basic services. The PBS was thus designed to protect the above gains from political shocks and sustain them and be a credible mechanism for channeling earmarked funding to the lower levels of government. The basic services sectors of focus are education, health, water and sanitation, agriculture, and rural roads which receive the majority (about 95%) of the programme's funding, in the form of block grants.

The donors use the four "SAFE" principles to jointly review progress to trigger disbursements. The four principles/shared commitments, which are enumerated below, form the foundation of the PBS II programme and basis for dialogue between the Government and DPs:

1) Sustainability and Additionality: the additionality (with sustainability) criterion requires that the share of the total federal block grant (financed from all sources) in total federal expenditure should be increasing over time within a sustainable macro framework. [1]

2) Accountability and Fairness: this criterion assesses: (i) the extent of disclosure of budget and expenditures at all administrative levels; (ii) adherence to objective inter-governmental fiscal formulas for allocating block grants to sub-national levels; (iii) implementation of the agreed actions under the transparency and accountability aspects of the PBS public finance management sub-program or component; (iv) the extent to which service facility templates are posted, completed correctly and shared with end-users of the key public services; (v) improvements in citizens" understanding of, and engagement with, their local budget processes, from the results of the 1st and 2nd rounds of the national financial transparency and accountability perception (FTAP) surveys; and (vi) review the progress of selected accountability-related reforms financed and implemented outside PBS, but relevant to the effective delivery of services at the local level.

3) Fiduciary: this criterion is used to review: (i) the implementation of agreed actions to strengthen PFM performance; (ii) compliance with fiscal and financial reporting and auditing requirements of the PBS; (iii) the implementation of continuous audits as well as their integration at the woreda/regional governments and federal parliamentary levels; (iv) enhancing the capacity of the Offices of Regional Auditor Generals (ORAGs); and (v) the progress made in enhancing procurement systems at sub-national levels.

4) Effectiveness: this criterion is used to review: (i) overall financing in the basic services sectors as well as the expenditure mix; (ii) results achieved in terms of access, quality and inclusiveness; and (iii) implementation of agreed to actions to enhance M&E of service delivery.

[1] Under PBS II, the additionality test was fine tuned to focus on medium term trends in the share of block grants rather than year to year taking into account changes in the macro environment while ensuring predictability in block grant disbursements.