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Building the Developmental State – A Review and Assessment of the Ethiopian Approach to Public Sector Reform

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LIST OF ABBREVIATIONS AND ACRONYMS

APRM	African Peer Review Mechanism
BCB	Bureau of Capacity Building
BDA	Budget Disbursement and Accounts
BIS	Budget Information system
BOFED	Bureau of Capacity Building
BPR	Business Process Reengineering
BSC	Balanced Score Card
CAS	Country Assistance Strategy
CBG	Capacity Building Grants
CBDS	Capacity Building for Decentralized Service Delivery
CSO	Civil Society Organization
CSR	Civil Service Reform (Sub) Program
DIP	Democratic Institution Program
DLDP	District Level Decentralization (Sub) Program
DP	Development Partners

EMCP	Expenditure Management and Control (Sub) Program
EPRDF	Ethiopian People Democratic Front
ERCA	Ethiopian Revenue and Customs Authority
ESW	Economic Sector Work
FEACC	Federal Ethics and Anti-corruption Commission
FTAP	Financial Transparency and Accountability project
FY	Fiscal Year
GGP	Good Governance Package
GTP	Growth and Transformation Plan
GoE	Government of Ethiopia
HR	Human Resources
IBEX	Integrated Financial Management and Information System
ICT	Information and Communication Technology (Sub Program)
IDA	International Development Agency
IFMIS	Integrated Budget and Expenditure management system
JBAR	Joint Budget and Aid Review
JRIS	Joint Review and Implementation Support
JSRP	Justice System Reform (Sub) Program
LIG	Local Investment Grant
M&E	Monitoring and Evaluation
MCB	Ministry of Capacity Building
MoCS	Ministry of Civil Service
MDG	Millennium Development Goals
MSEs	Micro and Small Scale Enterprise
NCBP	National Capacity Building Program
PBS	Protection of Basic Services
PRSC	Poverty Reduction Support Credits
PS	Professional Science
PSCAP	Public Sector Capacity Building Program

PSR	Public Sector Reform
SDPRP	Sustainable Development and Poverty Reduction Program
SIGTAS	Standard Integrated Government Tax Administration System
SWAP	Sector Wide Approach
TSRP	Tax Systems Reform (Sub) Program
ULGDP	Urban Local Government Development Program
UMCBP	Urban Management Capacity Building (Sub) Program
UN	United Nations
UNDP	United Nations Development Program
WCBS	<i>Woreda</i> and City Benchmarking Survey

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CONTENTS

ACKNOWLEDGEMENTS.....	2
Executive summary	i
1. introduction	1
1.1 Country context	1
1.2 Objective of the study and methodology	5
2. Features of Ethiopia’s public sector reform approach	6
2.1 Governance, public sector reform and forces of change.....	6
2.2 PSR as policy Initiative.....	7
2.3 Learning-by-doing orientation	7
2.4 Decentralization and PSR architecture	8
3. Major achievements of public sector reform	12
3.1 Decentralization.....	12
3.2 Service delivery.....	14
3.3 Good governance, accountability and transparency	18
4. Analysis of Ethiopia’s approach to public sector reform.....	21
4.1 Indicators.....	21
4.2 Effectiveness of the intervention: governance indicators.....	21
4.3 Effectiveness in reform content areas	25
4.3.1 Decentralization/fiscal federalism	25
4.3.1.1 Features of Decentralization.....	25
4.3.1.2 Analysis of the effect and outcomes of decentralization	32
4.3.2 Budget implementation and expenditure management	35
4.3.3 Revenue generation.....	38
4.3.4 Human resource management, wages and incentives	39
4.3.5 Restructuring and improving service delivery	43
4.3.6 Accountability and transparency	43
4.3.7 Local planning, participation and social accountability	44
4.4 Efficiency of delivery of interventions	45
4.4.1 Efficiency of operational modality/management	45
4.4.2 Quality of tracking, M&E and communication strategy.....	46
4.5 Relevance/appropriateness of the PSR approach	47
4.5.1 The reform program design, contents and instruments.....	47

4.5.2	Program design issues	51
4.6	Country ownership/ commitment, institutional setting, leadership and sustainability.....	55
4.6.1	Ownership and political commitment	55
4.6.2	Appropriateness to institutional setting	57
5.	Major findings and lessons of Ethiopian approach to PSR	59
5.1	major findings of the Ethiopia's PSR.....	59
5.2	Lessons Learned from Ethiopia's PSR	62
6.	Making it better: the second generation PSR in Ethiopia	64
ANNEX 1:	PSCAP's result matrix as at December 2011	70
ANNEX 2:	Division of major powers and functions in Ethiopia's federal system	84
References	87

TABLES

Table 1: WCBS results for selected metrics in 2005 and 2011	14
Table 2: Sample public service processing steps and times (before BPR, design after BPR and actual implementation after BPR)	16
Table 3: Ethiopia’s estimated scores on governance indicators (estimates range from approximately -2.5 (weak) to 2.5 (strong governance performance)	22
Table 4 Governance effectiveness indicator percentile ranking for Ethiopia in comparison to other selected sub-Saharan African countries	23
Table 5: Vertical fiscal imbalance: Own revenue to government expenditure (%)	30
Table 6: Percentage share of fiscal transfers to localities in two regional governments	31
Table 7 : Service coverage before and after decentralization	34
Table 8: Budget utilization rate (%)	35
Table 9: Percentage of government domestic revenue to GDP and to recurrent expenditure-----	38
Table 10: Civil servant statistics by level of government, 2010.....	40
Table 11: Comparison between Ethiopian civil service pay and other institutions.....	40
Table 12: Civil service employment growth rate in the public sector in federal and regional governments.....	42
Table 13: International experiences with different PSR designs	51

FIGURES

Figure 1: The role of PRCS, PSCAP, and LIG in the 2003-2005 CAS.....	10
Figure 2: Ethiopia’s governance effectiveness compared to five other countries (1996-2010)	24
Figure 3: Ethiopia’s regulatory quality compared to the average of five other countries	25
Figure 4: Indices of real salaries for six job classifications in the Ethiopian civil service, 2004 – 2011 (2004 = 100)	41

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EXECUTIVE SUMMARY

Key messages:

Ethiopia's indicator for government effectiveness has shown trends of improvement in the last seven years as a result of Public Sector Reform (PSR) efforts. However, in the future, this and other critical aspects of governance and democratization indicators should be enhanced through PSR, for realizing sustained economic and social development and transformation.

The government of Ethiopia has implemented a homegrown Public Sector Reform initiative (PSR). The approach and an instrument of the PSR is characterized as "big push" (comprehensive and integrated). The approach, although more supply driven, has been relevant in meeting the Country's Developmental State transformation agenda of the first generation as it enabled to fulfill the critical mass questions of institutional and governance changes. For example, creating timely relevant and interrelated reform areas, critical mass of individual and organizational skills, and enabling legal and policy environment that will help to initiate and sustain the agenda of development and good governance. A refined, more integrated, coordinated, and harmonized orientation of implementation across reform is vital for addressing the needs of the second generation and hence translating into action the good governance and public sector capacity building strategic pillar of the GTP.

The design of Ethiopian PSR has been politically motivated but the successes result from a combination of its approach and content. The approach has been effective and efficient in providing homegrown solutions, as the political ownership and commitment was high. However, setting up and agreeing on a common comprehensive framework on complementarities among different PSR programs/projects implemented by various stakeholders is important as it supports in strengthening linkages and harmonizing process.

In the large-scale PSR, the learning-by-doing what works best locally has helped to implement reform activities in a number of institutions, regions, and localities. Together with this, it is important to scale up the relatively independent large-scale M&E tools, such as the benchmarking survey (WCBS) and tracking mechanisms like SAFE, FTAPS, carrying out M&E through JARIS and JBAR in the PBS, independent annual performance evaluation of ULGDP.

The second generation PSR needs to focus on strengthening decentralization and decision-making power. It can do this by enhancing environments for decentralized sub-national level anchored solutions and narrowing capacity differences, placing effective top-down performance disciplines and bottom-up accountability mechanisms, as well as aligning the reform areas to the value chain of sector developments, employment opportunities and competitiveness. Aligning the reform areas envisages giving attention to more linked reform projects/activities in key domestic sectors that support competitiveness and employment. This places emphasis on downstream sectors (that focus on direct service delivery) parallel to upstream public sector (that focus on institutional change) in the way that influences chains of outputs, outcomes and overall goals. This is in addition to linking reforms and solving bottlenecks in value chains in service delivery. It also means linking reforms to the result framework of building and strengthening the country systems across disciplines rather than dealing on stand-alone, ring-fenced investment projects. Moreover, as the reform areas are not yet regular functions in the public sector, allocation of sufficient resources for the continuity of the PSR is mandatory.

Ethiopia's system of decentralization process has been credible in devolving power, improving governance and service delivery, as well as narrowing the per capita differences among Regional governments and districts. The second phase of decentralization was "Big Bang" and brought some gaps on addressing administrative and fiscal decentralization issues associated with a) detailed clarity of expenditure and revenue assignments, b) shortage of skilled manpower and lack of incentive in remote areas and inadequate budget for recruitment, c) building local government specific purpose fiscal transfer, d) local government mandate on PSR/capacity building, e) transfers, and f) decentralizing more decision making power to regional states on deciding financial resource for PSR/capacity building implementation.

In an effort to link the incentive and pay mechanisms to performance in the civil service, the MoCS has prepared a draft incentive guideline and is waiting for its approval by the Council of Ministers; it is an important step to the way forward. In the future, the guideline has to reflect a systematic and comprehensive incentive/pay reform and performance mechanism and rolled out as it is a prerequisite to the PSR.

Background and context

1. **Ethiopia emerged in the early 1990s from two decades of civil wars, famine, ethnic conflicts, and military dictatorship.** As a result, the country was at the lowest level of development by all standards and the state itself was a weak construct. The country faced drought, poverty, unemployment, very poor human development indicators, a political ideology that was hostile to markets and private enterprise, a deteriorating economy, and a government without adequate financial resources to provide essential public services. In 1991, the Ethiopian People's Revolutionary Democratic Front (EPRDF) overthrew the Mengistu military regime and took over the reins of government. The new government inherited a weak public administration and poorly functioning state agencies. One of the first priorities of the new government was to restore the capacity of the state and shape its structure and functions to ensure political stability and promote economic growth.

2. **The new government of Ethiopia embarked upon a long term strategy of state transformation that ultimately found expression in the political leadership's vision of a "Developmental State"** (Meles Zenawi, the Prime Minister of Ethiopia, extracted from Master's dissertation)¹. In contrast to what was termed "the neo-liberal preference for a non-interventionist state," Ethiopia's political leaders argued the case for the state to actively lead the development process (A. de Waal, Review Article "The Theory and Practice of Meles Zenawi", African Affairs, 2012). In line with this view, public sector reform and institutional capacity building were seen to be critical to the success of Ethiopia's long- term development objective of poverty reduction and democratization. In the last two decades, Ethiopia has pursued multiple structural and institutional reforms to build a developmental state. The scope and ambition of these reforms offers an important and unique case study of an attempt to modernize the state and adopt modern practices of public sector management and is all the more unusual given the context of what was initially a fragile state in Africa.

3. **State transformation in the first decade focused on the political essentials, including constitutional reforms that defined the state as a federation.** Initial efforts to restructure the state focused on politically salient prerogatives: decentralization, which was essential to hold the political coalition together, and on restoring the capacity of the civil service to implement policy. The process of decentralization unfolded in two distinct phases: the public sector management reform started with the Civil Service Reform Program (CSRP) in 1996, parallel to the first phase of decentralization to the regional governments.

4. **The "Big Push" approach used for Public Sector Reform (PSR) evolved from the strategy and program of comprehensive National Capacity Building Program (NCBP).** In 2001, the government initiated a comprehensive NCBP, consisting of fourteen specific programs (clustered around public, private and civil society sectors) coordinated by a "super ministry" for capacity building. The second phase of decentralization was followed by a multiplicity of reform programs to improve the capacities and functioning of the public sector. Following the NCBP, a broad list of governance and public sector reforms were initiated and these programs covered: civil service and performance improvement (including business process reengineering and balanced score card); public financial management; inter-governmental finance; revenue mobilization; justice and court system; urban management decentralized service delivery and building capacity; strengthening democratic institutions; rural and

¹ *The extracts of draft dissertation by the late Prime Minister, Meles Zenawi, entitled "African Development: Dead Ends And New Beginnings" (in Erasmus University, Rotterdam) was constructed in 19 chapters dealing about the methods of achieving the political and economic renaissance of Africa and the introductory chapters and summaries on theoretical arguments provide the characteristics of developmental state in Africa, a model being practiced in Ethiopia.*

pastoral management; information communication; other broad initiatives to improve transparency and accountability; as well as governance capacity across many levels of government.²

5. **The objective of this ESW report is to conduct a review and assessment of the Ethiopian approach to PSR in building the ‘Developmental State’.** The report assesses the approach relative to other reform experiences, and provides advice and guidance to the government and Executive institutions on the future generation of the PSR. It is increasingly recognized that the PSR played a crucial role in state transformation. However, beyond this broad fact, specific questions arise: What is the approach of Ethiopia’s public sector reform- or the specific characteristics/orientations of the “Big Push” approach- that contributed to the goals of state transformation? What works well and what doesn’t in Ethiopia’s reform approach, compared with other countries? What are the lessons of experience that could be drawn? This report attempts to draw some conclusions from the approach, experience, and evidence of Ethiopia to inform future reforms in both Ethiopia and other reform programs elsewhere.

6. **The federal system of government in Ethiopia gives substantial political, administrative and fiscal powers and autonomy to sub-national governments.** Ethiopia became a federal state in 1994. The constitution of Ethiopia is the foundation of the ongoing efforts in building a democratic good governance system. During the past decade, Ethiopia has made significant progress on political, administrative, and fiscal decentralization to sub-national government level. Decentralization (devolution), first to the regional level in the 1990s, and then from 2001 onwards to the district (*woreda*), is the centerpiece of Ethiopia’s strategy to deepen decentralization and good governance, increase local participation and democratic decision-making, and improve service delivery.

7. **Ethiopia has made progress on various fronts since 2002.** The economy grew at an average annual rate of 10.6 percent from 2003/04 to 2010/11 (11.4 percent according to government figures) (WB, Ethiopian Economic Update, 2012). This makes Ethiopia one of the fastest growing economies in Africa. Following the pro-poor spending strategy of implementation, good results have been recorded in meeting the goals of MDGs in the provision of education and health, and in expansion of road infrastructure. In relative terms, fiscal discipline has improved and federal revenue collection has also increased following the reform. Currently, the real per capita growth has risen marginally per annum; income disparity is not high. Despite these economic improvements, GDP per capita is still amongst the lowest in the world, and poverty (urban and rural) remains a problem; further structural transformation is needed and the challenge of high inflation needs to be brought fully under control, which is a big challenge. The rise of inflation has become one of the contravening factors that could potentially undermine economic progress.

8. **Ethiopia is an emerging democracy and has adopted a developmental approach to reforms, driven by the top-down vision of a “developmental state”.** The developmental state model in Ethiopia specifically takes into account measures to enhance the role of the state in economic and structural transformation, mobilization of domestic resources, controlling the environment of unproductive and threatening rent seeking and corruption, and ensuring equitable development.

² *The PSR support projects and programs include the Public Sector Capacity Building Program (PSCAP, FY 2004-FY 2012), Protection of Basic Services (PBS, FY 2006-FY 2012) Capacity Building for Decentralized Service Delivery (CBDS, 2002-2008) Democratic Institution Program (DIP) in five institutions namely Institute of Ombudsman, Ethiopian Human Rights Commission, Anti-corruption and Ethics Commission, House of Peoples Representatives, and House of Federation, Urban Local government Development program (ULGDP, starting FY 2009), municipal services and infrastructure.*

9. **The approach to creating the developmental state and resolve the challenges of public sector performance involves holistic and multiple reform interventions not confined to direct public sector restructuring and management.** Like many developing countries, the challenges of public sector governance or public sector management in Ethiopia range from broader institutional and structural deficiencies to specific issues such as ineffectiveness, inefficiency, lack of capacity, corruption, rent seeking, paternalism etc. Although overall implementation modalities for tackling the changes of public sector management are referred from the broad framework and theories of the New Public Management, the specific approaches and contents deployed to enhance the institutional quality or make the public sector more effective vary from country to country.

10. **In Ethiopia, PSR is interpreted or recognized as the broad initiatives of public sector capacity building, service delivery and accountability for governance issues in their interrelationships.** Despite the different terminologies used interchangeably, such as public sector reform, public sector management, public administration, and public sector capacity-building, the PSR has a broader perspective in content and is aimed at addressing deep institutional constraints on basic functions such as policymaking, service delivery, and regulation.

Features and lessons of the “Big Push” approach’ in Ethiopian PSR

11. The Ethiopian public sector reform in general, and in particular the design of specific reform areas, followed specific orientations that provided important lessons of experience as the first generation initiative for state transformation in the last eight years (2005-2012).

12. **The design and implementation of PSR is supported by a high degree of government ownership of policies and programs as well as political commitment, including enabling policy and legal environment.** The PSR design was politically motivated but also supported with suitable techniques. In other words, political and technical reforms were not separately treated to avoid failures. One of the lessons is that political commitment of the government, leaders, and the balance given to political and technical considerations are the determinant factors for the success of PSR. In the Ethiopian case, PSR is home-grown and owned by the government but assisted with international donor partner institutions. This is in contrast to what happens in other developing and transitional countries, where reforms tend to be driven by donor advocacy and lending conditions.

13. **Contrary to the established wisdom of pilot based and incremental reform approach, Ethiopia approach was against orthodox thinking by adopting a comprehensive, integrated and centrally coordinated approach to the design and implementation of a PSR program.** Ethiopia successfully followed a holistic approach, developed from a combination of an integrated approach and multiple reform areas. It adopted a holistic approach to reforms, integrating human resources, and organizational and system reforms, along with cross-sector issues, to improve service delivery and governance.

14. **The reforms in Ethiopia were driven by a legitimate and capable lead Ministry and accompanied by counterpart regional institutions.** The existence of powerful focal institutions (Ministry in charge of Capacity Building) and matrix institutional arrangement both at federal and regional levels has been a relevant factor for the success of the public sector reform and capacity building efforts. It helped to draw visionary ideas, drive the change, and maintain consistency of implementation nationally. The coordination has enabled the government to embrace the transformation agenda and the vision of the country. The focal institution has roles in coordinating lead cabinet ministries and regions and overseeing the overall implementation of PSCAP; it ensures rule based allocation and reallocation, facilitates budgetary approvals and executions for the

beneficiary institutions, approves PSCAP plans for the federal and the regional components, approves midyear and annual allocation and reallocation of PSCAP 'rights', executes its own plans, and conducts periodical evaluations. The arrangement has helped to drive changes and ensure Institutional sustainability by strengthening implementation capabilities, installing overseeing mechanisms, and providing flexible arrangements of financing. It has also helped by reducing administrative and operational costs for scale economies and harmonizing donors, and drawing funds through pool arrangement. Especially it was important in gauging, scaling up, mentoring, and keeping the consistency of the overall implementation.

15. **Apart from drawing valuable practices from abroad, locally generated learning-by-doing exercises have been relevant to sustain reform interventions.** Learning-by-doing what works best locally has helped to scale up reform activities in institutions, regions, and localities. To this end, the initiatives worth mentioning are: developing prototypes for regions; creating capacities in training and management institutions (sometimes termed as 'creating capacity for capacity building'); developing minimum mandatory capacity-building implementation activities; formulating performance based reallocation mechanisms based on implementation level and competitions; and introducing simplified templates for transparency at local level.
16. **The PSR has sub-national orientation, ownership, and gives priority to sub-national governments supported with a politically driven decentralization process.** By and large, this enabled the sub-national governments to adapt national policies, determine their own priorities, and sequence implementation (despite some gaps of empowerment to PSR policy decisions). Aligning PSR with decentralization efforts helped to reach the grassroots. The alignment helped to strengthen powers and responsibilities of regional states, *woreda*, and city administrations, and this in turn enhanced accountability and service delivery.
17. **Harmonization and alignment of the PSR, as in SWAP pooled-fund arrangement, brought cost saving benefits.** The PSR implementation was harmonized and aligned with the fiscal, fiduciary, and reporting requirements of various donors, and also aligned closely with Ethiopia's public financial management, intergovernmental transfers, and planning system.
18. **The PSR homegrown initiative was backed up by a large scale monitoring and evaluation system in the form of annual or two years *Woreda* and City Benchmarking Survey (WCBS) as well as bi-annual joint supervision mission that builds an element of accountability and responsiveness.** The survey integrates structured feedback from both the supply and demand side to enable sustainable monitoring of impacts of development programs on institutional capacity and service delivery performances across local governments, and to identify gaps in the implementation of the reforms.
19. **The provision for "the minimum mandatory capacity "has been valuable in meeting the sequence of activities, utilizing financial resources effectively and enhancing performances.** The enforcement of sequencing arrangement through provision of a fund for completion of "the minimum mandatory" capacity building (defined across subprograms) allowed sub-national units to rapidly build up the basic capacities needed to effectively manage and implement reform activities. This is one of the lessons from implementation of PSCAP that would be relevant to other African countries, where there will be variations in the capacity to implement reforms.
20. **The introduction of financial transparency and accountability templates created awareness at the local level despite the need for continuous improvement.** These mechanisms include the design of budget, expenditure, and service delivery templates that can be used to display and post budgets and service delivery standards for the public. The templates are designed for those who are not experts in such matters, and are easy to understand and apply. More than 90 percent of the *woredas*

post their budget and, in a number of cases, post and report expenditure for the public. This creates the potential for citizen awareness and feedback, both administratively and through the political process.

21. **The creation of an environment for competition, reward and learning local practices were important for performance improvement, mobilization and enhancing growth.** For instance, under ULGDP, local governments compete with one another for better performance based on standard criteria contained in an independent annual assessment. In a similar way, criteria have been established in rural areas for creating or identifying model farmers, as well as model villages, to motivate and reward good performance at local (*woreda* and village) level.

Findings

Government effectiveness

22. **The programs and projects supporting Public Sector Reform have contributed to improving governance effectiveness and hence to the agenda of state transformation in Ethiopia.** Over the last two decades, Ethiopia has been implementing major reform programs to empower citizens and enhance public sector efficiency, effectiveness, transparency, and accountability. As a result of the development of the reforms, public sector governance has measurably improved. As the World Wide Governance Indicator (2011) measurements depicts, from 1996 to 2010, Ethiopia's government effectiveness has shown trends of improvement in the last seven years, from -1.28 in 1996 to -0.35 in 2010 (generally scores of governance effectiveness range from approximately -2.5 for weak performance to 2.5 for strong performance). There is a strong positive trend, which shows Ethiopia progressing faster than the other countries, consistent with the within-country time series evidence of percentile ranking government effectiveness. The results are also confirmed by the Mo Ibrahim's Index of African Governance (Mo Ibrahim 2012). According to the Index, the overall governance score for Ethiopia was 46 percent in 2006, and reached to 47 percent in 2012. The score was close to the continental average score of 51 percent but very far below the highest score of 83 percent, and showed marginal increase.
23. **According to the international comparative studies/surveys, Ethiopia is a laggard in one aspect of government performance – namely, regulatory quality.** Ethiopia's performance is considerably lower than other countries in the region, although the trends are positive. Other indicators, namely control of corruption, voice and accountability, political stability/absence of violence, and the rule of law are stagnant or deteriorating. The results are also confirmed by the Mo Ibrahim Index of African Governance (Mo Ibrahim 2012). The ability of the government to formulate and implement sound policies and the low quality of regulatory institutions and governance affect the adequate provision of public service, weaken incentives for good performance, and undermine the delivery of results.
24. **On the other hand, some in-country based studies reflect positive developments on the ground although the data or values of indicators in the different local studies have not been assembled to provide generic measurements and make comparisons with other countries.** Accordingly, the government has credence in reducing corruption by establishing an anti-corruption watchdog; persecution and sentencing of very many high-profile corruption cases; and initiating the registration of the incomes and property of high-level politicians and senior public servants. Improvements have been made on the voice and accountability indicator, as democratic process are in place for citizen participation; existence of transparent, predictable and credible government economic policies; and proclamations and regulations for effective and transparent management. There is political stability in the country and the government has reduced violence by participating

people in the democratization process, securing conflict resolution and increasing security. The prevalence of the rule of law is substantially better than what it was during the years preceding the present government. According to African Peer Review Mechanism (APRM, 2009), the practice matches what are in the law despite incidents over some years. Some of the reference studies/surveys are the Corruption Perception Survey of the Federal Ethics & Anti-Corruption Commission (FEACC), study on independence, transparency & accountability in Ethiopian judiciary, the PSCAP reform sub - programs result indicators etc. In general, the Ethiopian first generation PSR (2005-2012) has made significant strides in state transformation, ensuring good governance, improving efficiency of service delivery, poverty reduction, and sustained economic growth. However there are still challenges, unmet needs, and new areas of interventions that remain to be considered to produce visible effects on the overall institutional and governance results.

Political and administrative decentralization

25. **Ethiopia's system of decentralization touches all dimensions -political, administrative and fiscal decentralization. Political efficiency of decentralization is demonstrated in many respects but party discipline and top-down management could substitute upward accountability for the desired downward accountability,** in terms of political and administrative decentralization. Under the two regimes prior to the EPRDF, decentralization was seen more as a threat than as an opportunity. The first and second phase of decentralization under the EPRDF provided substantial power, and helped to decentralize power to *woreda* administrations and in bring local governments closer to the population. Sub-national governments are able to strategically plan and implement social and economic development activities, carry out a number of small-scale social and economic infrastructure projects within a short period, and are able to provide basic services. The party structure in the Ethiopian case has allowed implementing fiscal, administrative, and political decentralization simultaneously, as there are no differences of interests between the national and sub-national based parties (in the inter- party dynamics) regarding enhancing or delaying the implementation of specific dimensions of decentralization.

26. **With respect to administrative decentralization, the allocative efficiency of local level decentralization is achieved partly by setting- up local government institutional structures for basic service delivery.** Local governments are able to manage the administrative functions of the five basic service delivery functions in at least 21 sector offices per *woreda*, compared to the very limited structures and functions prior to decentralization. While administrative authority has been devolved to local levels (de jure and de facto), serious constraints on capacity and legislative frameworks (in some regional states) hinder the achievement of full-fledged decentralization. The main constraints on administrative decentralization are associated with the lack of detailed clarity of expenditure and revenue assignments at local governments, shortages of skilled manpower, inadequate budgets for recruitment by local governments, and a lack of incentive for critical professional staff (especially in remote areas).

27. **The production efficiency of decentralization (delivery of services and satisfactions by citizens) has also been largely attained.** Decentralization has contributed to significant improvement in accessing services such as education and health services and (moderate) improvement of water services. The comparison of service delivery coverage before and after decentralization has been encouraging. Compared to the level of the services when the local devolution just started in 2002, net primary school enrollment has increased from 52.2 percent (before decentralization) to 85.3 percent after a decade; safe drinking water coverage within a 1.5 km radius increased from 28.4 percent to 73.3 percent over the same period; and the defective water supplies decreased from 30 percent in 2005 (during the start of the PSR) to 20 percent in 2011. Under Five Mortality Rate was reduced to 88/1000 population in 2011, from 167/1000 population in 2002. The number of Health Extension

Workers (HEW), which was 2,737 in 2003, increased to 24,571 in 2008 (PBS PAD II, 2009) thereby increasing the ratio of health workers per population. The average distance to reach an all-weather road decreased to 3.5 hours in 2011 (from 7 hours in 2002). Road density increased from 22km/1000 km² in 1996 to 40.3 km/1000 km² by the end of 2008. The proportion of roads in good condition increased from 18 percent in 1995 to 73 percent by the end of 2008. The number of Agricultural Development Agents, which was 9,434 in 2003, increased to 49,435 in 2007, and reached 55,500 in 2011.

Fiscal decentralization

28. In order to fill the gaps of the vertical fiscal imbalances (defined by the difference between the expenditure requirement and revenue raising capacity of level of governments as per the expenditure and revenue assignment), the general-purpose grant transfer from federal to regional states and from regional state to *woreda* have continuously increased. The transfer from the federal government to regions between 2005 and 2012 has increased by an annual average of 9.2 percent in real terms. The transfer pool to regional states has been 9.9 billion Birr in 2006/7 and increased to 30.6 billion Birr in 2011/12. The transfer has narrowed the fiscal imbalances over time. Similarly, the Federal- Regional government level general purpose transfer formulas that have been deployed have narrowed the per capita allocation among regions and districts respectively, especially favoring the emerging regional governments. However, there are still three concerns for improvement. These are issues related to a) local government specific purpose fiscal transfer issue, b) local government mandate on PSR/capacity building transfers, and c) decentralizing more decision making power to regional states on deciding financial resource for PSR/capacity building implementation.
29. **Specific purpose grant system is not well built-up in the fiscal federalism landscaped.** Although resources flowing through the block grant system are increasing, on average 80 percent of these resources are used to fund salary costs, while resources for capital expenditures are limited. The affordability and sustainability of financing local governments has to be carefully analyzed.
30. **Local governments lack their own finance for PSR/capacity building.** Given the existing revenue assignment structures and low level of local revenue, there has not been a sustainable and reliable means of financing other than providing adequate specific purpose grants for development or PSR/capacity building.
31. **Proportionately more financial support and decentralized power of decisions making is needed on the use of PSR/capacity building resources by regional states.** Despite the need for further improvement on decision-making, the decentralized regional states have been the major target beneficiaries of the PSR. They have now accumulated experiences to initiate, adapt, and implement reforms in line with the principle of devolution of power, and there is an opportunity to strengthen the regional governments and incentivize their performances to carry out reforms. The experience of Ethiopia shows that the success of PSR depends on the extent of devolution of power (or ensuring local autonomy) at regional and local levels, and on empowering citizens at the grassroots level. The PSR gave priority to capacitating regional institutions and to promoting reforms in *woredas* and urban local governments.

Budget implementation and expenditure management

32. **The objectives of budget implementation and expenditure management have been partially achieved and brought better results in the areas that operate well with the related capacity building mechanisms more or less in place.** The expenditure management achieved better results in areas where there was a strong, receptive, and sustained demand and capacity for support. Progress is harder in areas where the capacity and financial support were inadequate (e.g. IFMIS). Significant changes in grafting legislative and policy frameworks have enabled the public finance to be

administered comprehensively. Predictability and control of public expenditure budget outturn has improved substantially at federal level, but less at the regional level (though still relatively substantial). As a result of introducing IBEX supported budgeting and accounting systems, reporting has improved- in 2007, the backlog account has been eventually eliminated. An accurate and reliable cash management and control system has been established. It is a zero-balance system based on cash flow and drawing limits, introducing key cash flow sheets, disbursement, and approval forms. More actions are needed on implementation of program budgeting, IFMIS, FTAPs, procurement system, external scrutiny, and auditing.

33. Ethiopian public sector pay structure, pay practices, incentives and financing situation have not improved to a level necessary to sustain productivity and availability of manpower and have restraining effect on the implementation of broader structural reforms. Between 1996 and 2011, real average pay in the Ethiopian public sector declined continuously and drastically. Basic pay was adjusted by 20 percent (on average) in 2002 and by an average of 38 percent in 2004, 2006, and 2011. Before the most recent salary adjustments in January 2011, real pay for all salary groups had declined to about half of their 2004 level. Even with the salary adjustment in 2011 (nominal pay increase ranging between 36 percent and 40 percent), real public service pay still remains at only about 60 percent of its 2004 level. At best, the adjustments in pay have only partially compensated public servants for the loss of purchasing power. According to the Economic Update Report (2012), inflation reached a peak of 33 percent in 2011, and then slightly declined to 20.2 percent in August 2012. In 2010, food consumer prices had already experienced higher growth rates than in several African countries and this gap has further widened since the beginning of 2011.

Revenue generation

34. The nationwide revenue generation effort was generally on track but the ratio of revenue to GDP is very low compared to other developing countries. Nationwide tax collection increased fivefold, from 12.4 billion birr in 2005 to 58.9 billion birr in 2011, and these figures in real terms doubled within this period. However, the ratio of revenue to GDP is very low (around 12.43 percent in FY 2010/11) compared to the average for sub-Saharan African countries of 26 percent, and calls for the need to scale up the reform by tapping the potential, and reducing the cost of, collection.

Performance evaluation

35. Despite the introduction of modern management tools such as BSC, performance management system is not strengthened and performance evaluation is more subjective and not yet aligned to incentive system. The government introduced tools such as BPR and BSC with the aim of instituting a businesslike approach in the civil service. However, BSC is not yet systematically rolled out to all government institutions at federal, regional and local levels. Attention is given to support institutions likely to be effective in fostering strong incentives for performance, especially in state organizations and those charged with managing and delivering services. The attitude of civil servants has also changed over time, and they (and their leadership) now show signs of efficiency and accountability. However, the performance management system, especially the cascaded BSC performance measurement system designed for individual performers, is not credibly developed and reinforced with enhanced basic pay, performance incentive training, and career paths. In an effort to link the incentive and pay mechanisms to performance in the civil service, the MoCS has prepared a draft incentive guideline and submitted it for approval by the Council of Ministers.

Restructuring and improving service delivery

36. In the last two decades, the Ethiopian public service institutions have been deeply restructured and this in turn has improved performance and service delivery. Improvements in service delivery were achieved by implementing various performance improvements and restructuring instruments including the BPR at federal, regional, and *woreda* government levels in almost all public

institutions. The BPR was instrumental in clarifying organizations' strategic visions, missions, mandates, and products, and enhancing their top leadership's appreciation of strong institutions; simplifying work processes and requirements, which resulted in substantially shorter transaction times for most services; developing service standards establishing important flat structures and offices as well as decentralizing tasks to lower levels of government, establishing one-stop shops; and enhancing customer orientation in public services.

37. **As a result of introducing BPR, processing steps and processing times for service delivery have decreased in priority sector institutions but the effectiveness and sustainability of the reform tool needs to be assessed.** BPR has improved access to services, staff responsiveness, and cost efficiency in priority sectors. For example, investment licensing and after care service provision by the Investment Commission of Ethiopia took 10.5 days and was planned to be reduced by half to 5.5 days but now it is actually reduced to hours (5.5 hours). The 20 steps used to get the service have been reduced to one step window-shopping as planned. Table 2 in the main part of the document shows how processing times changed for a variety of government services after BPR. Parallel to the BPR implementation, the increased use of information and communication technologies has modernized working systems and improved government's performance in selected institutions at federal, regional, and local levels.

Local planning, participation, accountability and transparency

38. **Voluntarism allowing contrary views to be aired in unedited manner is a major approach in citizen participation and upholding accountability.** Instituting the democratic participation of membership-based civil society organizations in the *kebele* and *woreda* councils (but the CSOs have no voting rights). The WCBS Supply Side survey indicated that out of the 74 sample jurisdictions, about 87 percent of the sample city governments; 78 percent of sample municipalities; and 84 percent of sample *woredas* employed participatory planning in the last three years.

39. Based on the same survey, for instance, in Amhara and Tigray Regional states, 70 percent and 51 percent of women occupied seats in their councils respectively, while the rest of the regions/states provided only 20 percent to 34 percent of council seats for women. The local councils at *woreda* and *kebele* level have been broadened from a minimum of 150 constituents to 300. The participation of women in the council has reached 30 percent and even up to 50 percent in some localities. Social '*shengo*' consisting of 8 to 15 members have been organized to reconcile disputes and minor illegal matters at localities. Structures are being established for citizen/community participation, planning, and local service delivery (including assigning of a professional local manager at each *kebele*).

40. **PSR has improved the combination of bottom-up and top-down grassroots participation system** but sometimes top-down disciplines dominate and stifle local planning, participation, and social accountability. The top-down approach to delivery sometimes stifles local initiative and creativity; areas that need continuous support are the promotion of civil society participation, enhancing the free engagement of the citizens, voluntarism in participation (e.g. in policy making), improving the livelihoods of citizens, and enhancing demands for participation and accountability in service delivery. The approach must be systematically strengthened for sustainability.

Efficiency of PSR

41. **The efficiency of the delivery of PSR intervention was high, indicating the proper functioning of the delivery system.** For instance, the PSCAP support project used more than 80 percent of the total budget allocation to finance project cost in the specified time, compared to the PSR programs in other developing countries that used 55-60 percent of their budget. Management costs account for less than 10 percent of the program's total cost, attesting to administrative efficiency. According to the Project Appraisal Document of PSCAP (2004), operating cost is planned at 5 percent of the total estimated project cost, and this has been closely achieved. Management efficiency is also gained as a

result of the program's integration, alignment with existing government systems, pooling of the required funds from different sources, and by building technical staff capacities at the regional level in the early stages.

Ownership and sustainability of PSR

42. Some developing countries face donor incentives to initiate or sustain public sector reforms, but there is little reform ownership by the government. At the implementation stage, the perception grows that the political costs of reform may outweigh potential gains; hence reforms are abandoned or left to wither. **In the Ethiopian case, the evidence shows that there was strong ownership and design and coordination of the reform driven by the political interest in establishing the capacity for the developmental state.** Nevertheless, though Ethiopia has experienced some of the factors that cause on and off situation in reform momentum this doesn't show an entire loss of commitment from the government side. The government has continued its commitment as a result of the new developments, including the assignment of three Deputy Prime ministers for governance and capacity building, economic and social clusters at federal level. It is also following up reforms by holding monthly regular meetings with reform leading or beneficiary government institutions, and the government's commitment for sustaining the reforms as demonstrated by the strategies and different political forum.

43. **How should stakeholders respond to a situation of weakening commitment to public sector reform?** In such cases, it is advisable to identify country contexts, and to differentiate expectations and approaches to reforms with a clear plan of engagement with stakeholder incentives. Some environments with very challenging issues may yet offer windows of opportunity, and these could be approached with a very clear view of the constraints and limited opportunities (and approaches that match such contexts). Donor support to public sector reform needs to reflect key dimensions of country context more explicitly in operational design. In such less propitious situations, it is important to address issues of operational feasibility, "ground truthing," and monitoring the impact of reform activities as a short-term response. Analytical work to understand the political disincentives for reform, along with engagement with citizens on the demand side, may help to catalyze particular reforms that may be incentive-compatible once coordination and information failures are addressed.

44. **The Ethiopian PSR approach has been relevant in many aspects. The support was aligned to the transformation goal of the country and met the needs of first generation efficiently.** However, the approach has to consider complementarities among reforms and reflect systematically on the needs of the second-generation reforms (specifically the good governance and capacity building pillar indicated in the Growth and Transformation Plan of Ethiopia). Furthermore, it is necessary to enhance environments for sub-national level anchored solutions, and decentralize/deepen the role of regions and local governments to carry out reforms. Among other things, the PRS approach needs to reflect a coherent vision of reform policies. It should consider features that are geared, or at least relevant, to answering typical governance and democratic questions, and strengthen state capacities. The approach has to place effective, top-down performance disciplines or bottom-up accountability mechanisms, and expand the scope of engagement of civil societies and private sector. It is advisable to link the priorities of PSR to the value chains of sector developments aimed at creating competitiveness and employment opportunities. To this end, the World Bank approach to Public Sector Management (2011-2020) and Africa's Future and the World Bank's Support to It (2011A) indicate the new approach and future strategies to public sector capacity and governance. The approach is related to pillar strategies and foundation, alignment of reform areas to value chain of sector developments (placing emphasis on downstream sectors that focus on direct service delivery), solving bottlenecks in value chains in service delivery, and linking reforms to building and strengthening the country systems across disciplines rather than dealing on stand-alone, ring-fenced investment projects.

1. INTRODUCTION

1.1 COUNTRY CONTEXT

1. **Ethiopia emerged from two decades of civil wars, famine, ethnic conflicts, and military dictatorship in the 1970s and 1980s.** In 1991 The Ethiopian People's Revolutionary Democratic Front (EPRDF) overthrew the military regime headed by Mengistu. A Transitional government was set up under the decree of the Transitional Charter. This was followed in 1994 by the Constitution of the Federal Democratic Republic of Ethiopia (FDRE), which replaced the Transitional Charter. This provided the legal basis for establishing Ethiopia's federal system based on nine ethnically based regional states and two city administrations. Ethiopia has four tiers of government: federal, state, district (*woreda*) and *kebele*. Each tier has legislative, judiciary, and executive organs of government. The country has a bicameral parliament consisting of the House of Federation—responsible for interpreting the Constitution and for federal-regional issues, and the House of People's Representatives that passes legislation.

2. **The federal system of government in Ethiopia gives substantial political, administrative and fiscal powers and autonomy to sub-national governments.** The regional states consist of 815 *woredas* and 133 urban administrations, which are the main units of local government. The local governments decide how to spend their revenue for providing basic services. Based on the principles of fiscal federalism, transfers are made from the federal to the regional government and from the regional government to *woredas*, through a system of non-earmarked block grants. Regional states obtain most of their financial resources from these transfers. The regions and *woredas* decide how to allocate and use the funds in their jurisdictions. Each regional state has its own constitution, and resident constituents elect members of the legislative council, from which the regional state president is appointed. Council members are elected at federal, regional, *woreda/city*, and *kebele* levels.

3. **The FDRE Constitution stipulates the division of powers and functions between the federal government and regional states, as well as the concurrent functions.** Matters of nationwide concern and those which go beyond the jurisdiction of a single regional state are left to the central government, while a great deal of responsibility for local economic development (including infrastructure and public services) is assigned to regional states. Similarly, the revised constitutions of regional states and the subsequent decentralization process indicate the powers and functions of governments at the regional state, *woreda*, and *kebele* levels. (For details about this division of powers and functions, refer to Annex 2).

4. **In the last two decades, the Ethiopian public service institutions have been deeply restructured.** The major tool for restructuring and performance improvement was the introduction of BPR in almost all public institutions at federal, regional and *woreda* administrative levels. Ministries, Agencies, and Bureaus (MABs) and Sectorial Offices have been established and restructured at federal, regional, and *woreda/city* administration levels. The total numbers of public institutions are around 145 at federal level, 404 in 11 regional states/two city administration level, and over 19,635 at *woreda* level. Civil service employment has increased substantially, and has grown at an average rate of 5.6 percent per annum from the 1960s up to 1992. Between fiscal the years of 1992 and 2005, the average annual employment growth rate accelerated, reaching 6.3 percent per annum. The average annual employment growth rate between 2005 and 2010 increased to 13.8 percent. In 1990, public service employment was 236,410 (MoCS, 2010). Between the years of 2003 and 2010, the level of employment more than doubled (from 389,563 to 871,400 personnel). This growth rate was exceptionally high by Sub-

Saharan Africa and international standards. The majority of employees (about 93 percent) work at sub-national level. About 41 percent of the country's civil servants have a college diploma or higher. The level of skills of the civil service has been significantly improved. Relative to its GDP and the size of the civil service, Ethiopia's public sector wage bill is low compared to other Sub-Saharan countries. Lesotho, Swaziland, Namibia, South Africa, and Botswana have the highest wage bill to GDP ratios. The wage bill to GDP ratio between the period 2005 and 2009 was 14-16 percent for Lesotho, Swaziland; 8-10 percent for Namibia, South Africa, Botswana; and 4-6 percent for Ethiopia. On the other hand, the public sector wage bill as a percentage of recurrent expenditure is 57.3 percent, which is the second highest in Sub-Saharan Africa, where the average is 30-35 percent. Increase in public expenditure is accompanied with an increase in recurrent expenditure, as the public wage bill is raised to accommodate the increase in the number of personnel assigned in priority sectors such as health, education, and agriculture. The Ethiopian public sector wage bill as a percentage of government domestic revenue is in the upper middle range, compared to other Sub-Saharan similar countries. The Wage Bill to Gross Domestic Revenue ratio for the three-comparator countries is nearly at or above 50 percent (Zambia at 52.2 percent, Ghana at 49.8 percent, and Mozambique at 49.7 percent); and for Gambia the ratio is 30.5 percent. For Ethiopia it is 39.2 percent and this places it among the upper middle level range of the comparator countries. In the case of Ethiopia, US\$ 39.20 out of each US\$ 100.00 collected in domestic revenue pays compensation for public sector employees. Botswana's wage bill to revenue is twice that of Ethiopia (PSCAP, Theodore R. Valentine, 2012).

5. Ethiopia is an emerging democracy and has adopted a developmental approach to reforms, driven by the top-down vision of a "developmental state". Four elections have taken place since 1995, with the dominant party (EPRDF) winning all four. A number of reform measures were introduced following the first two elections (1995 and 2000) to build the state. Starting in 2002, the government initiated programs to build capacity, improve governance, and decentralize power in an effort to sustainably develop the country and its economy. During the 2005 election campaign, the public raised some pertinent questions regarding good governance, which led to further reform.

6. The model of "developmental state" in Ethiopia focuses on enhance the role of the state, mobilization of domestic resources, controlling the environment of unproductive and threatening rent-seeking and corruption and ensuring equitable and sustainable development. Government has a vision to attain the Millennium Development Goals (MDGs) by 2015 and to transform Ethiopia into a middle-income country by 2020. Following the 2010 election, the government launched the ambitious five-year Growth and Transformation Plan (GTP) to create a strong developmental state, strengthen public institutions, mobilize domestic resources, and fight corruption—specifically corruption in land and revenue administrations. Hence, the government's long-term strategy of state transformation is expressed in the political leadership's vision of a "Developmental State" (Meles Zenawi, the Prime Minister of Ethiopia, extracted from Master's dissertation). The extracts of a draft dissertation by the late Prime Minister Meles Zenawi entitled "African Development: Dead Ends and New Beginnings" consists of 19 chapters, and deals with the methods of achieving the political and economic renaissance of Africa, differently from the proposed variations of the dominant neo-liberal paradigm of development. The argument is that the neo-liberal paradigm is a dead end, is incapable of bringing about the African renaissance, and that a fundamental shift in paradigm is required to bring about the African renaissance. The government in Ethiopia has an approach that aims to achieve transformation, equity, and fairness. It has a deep concern to fight corruption and rent-seeking behavior that may follow from their policy of protected, market-led economic growth. Thus, the state has an important role in the developmental process. In contrast to what was termed the neo-liberal preference for a non-interventionist state, Ethiopia's political leaders argued the case for the state to actively lead the

development process (A. de Waal, "The Theory and Practice of Meles Zenawi", African Affairs, 2012).

7. The developmental state in Ethiopia has at least the following features: **the developmental state is created driven by the prevailing political economy of Ethiopia, and in turn, it (the developmental state itself) created the social environment and bureaucracy for shared growth and accelerated development.** The developmental state is believed to be not socially wasteful or rent seeking by itself, and fights behavior of client patronage and rent seeking. It is not large in size but is filled with activism in fulfilling social capital, incentivizing rewarding, and penalizing the private sector, rather than being a night watchman state. It is a developmental state with high intervention in agriculture, marketing, transport, technology accumulation, and adoption, etc. The nature of the current developmental state in Ethiopia differs from the developmental state of some of the Asian countries in some respects. These differences include a) the degree of the expanded intervention role of the Ethiopian developmental state in view of the contextual root causes of dependency and building renaissance; b). the largest role of the state is on public investment; c) the dependence on limited domestic resource or saving- which is different from the geopolitical based foreign investment support offered for Taiwan and Korea; d) the emphasis given first to the advancement of political economy of developmental state (an activist role); and e) the special features such as the existence of dominant outlook for sustaining vision, rather than fulfilling the needs for short term election (ensuring equity alongside growth than waiting for the repining of benefits after growth generated by a few).

8. **Ethiopia has shown progress on various fronts since 2002.** The country's GDP has been growing well (an annual average more than 10 percent as per the recently published economic update report of Ethiopia, 2012) over the past decade, making it one of the fastest growing economies in Africa. Good results have been recorded in the provision of education, health, and in expansion of road infrastructure. Despite these economic improvements, the structure of the economy needs to change (shift to industrialization), which is a big challenge. GDP per capita is still among the lowest in the world and poverty (urban and rural) remains a problem. In the mid-1990s, as part of the conventional New Public Management approach, Ethiopia attempted to apply the Structural Adjustment Policy (SAP). Hence, between 1994 and 1996, public sector reform/capacity-building in Ethiopia was constructed on an isolated, project-based approach, focusing on a very limited area. Its implementation was ad hoc and fragmented. This included isolated donor supported projects and government led initiatives, such as the Civil Service Reform and the Expenditure Management and Control under the Ministry of Finance and Economic Development (MOFED). As was the case in many other developing countries, this approach failed to realize any substantial benefits, and was short lived.

9. **Public Sector Reform (PSR) started with the launch of the Civil Service Reform Program (CSRP) in 1996, driven by the Prime Minister's office. It coincided with the first phase of decentralization to regional governments, continued its implementation at large scale in 2001 and during the "Big Push" interventions by the National Capacity Building Program (NCBP).** The plans drawn up as part of this program developed the future vision of the civil service, and were committed to reversing bureaucratic arrangements that hindered reform, outdated management, unethical practices, and rising corruption, embezzlement, and fraud. At the time, implementation of the CSRP proved cumbersome, partly due to the attempt to plan the entire process and "get it right the first time," and partly because the executing office was understaffed and over-controlled (World Bank, 2005). Little progress was made; this initial experience, combined with the capacity problems experienced in the sector development programs in health and education, changed the government's approach to public sector reform (World Bank, 2005). In 2001 the government initiated a comprehensive NCBP. It consisted of fourteen programs (clustered as public, private,

and civil society sectors) accompanying the second and last phase (thus far) of decentralization to the *woredas*. Thus, the NCBP was the basis for the consecutive “Big Push” of interventions in Ethiopia.

10. **In the course of time, the government introduced various governance and PSR project components such as CBDS, PSCAP, DIP, PBS and ULGDP.** Following the trend of the reform programs, the World Bank’s support for capacity-building has been shaped by three factors: (i) a high degree of government ownership of policies and programs, (ii) a politically driven decentralization process, and (iii) the coordination of donor support through Sector Development Programs (SDPs) in three of the four sectors: education, health, and agriculture (World Bank, 2005). This is also linked to the broad thrust of Ethiopia’s medium term Sustainable Development and Poverty Reduction Program (SDPRP, 2002-2004) to strengthen the on-going capacity-building effort and thereby improve the capacity to implement development programs. The SDPRP also deepened and strengthened the decentralization that shifted decision-making to the grassroots level, in an effort to improve responsiveness and service delivery (MOFED, 2001). The broad list of governance and Public Sector Reform (PSR) initiatives, as indicated in the 2008 Ethiopia CAS and other project documents, are:

- The Public Sector Capacity Building Program (PSCAP, FY 2004- FY 2012), which covers a broad range of governance and public sector reform initiatives and contains six large sub-programs; namely, the Civil Service Reform Program (CSR)— which included the Expenditure Management Reform Program (EMCP), although EMCP has increasingly been treated as a separate sub program; Justice System Reform Program (JSRP), including court reform and parliamentary support; Information & Communications Technologies (ICT); Tax System & Customs Reform Program (TSRP); Urban Management Capacity Building Program (UMCBP); and District Level Decentralization Program (DLDP).
- Protection of Basic Services (PBS, FY 2006-FY 2012), which focuses on protecting basic services, transparency, and accountability. It contains four sub programs: support to delivery of basic services, health MDG support facility, transparency and accountability, and monitoring and evaluation (M&E). It also includes Local Investment Grant (LIG), a specific-purpose grant for capital investments in rural areas.
- Capacity Building for Decentralized Service Delivery (CBDS, 2002-2008), which deepened decentralization in urban local governments.
- Urban Local government Development program (ULGDP, starting FY 2009), which supports improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure.
- Democratic Institution Program (DIP) in five institutions: namely Institute of Ombudsman, Ethiopian Human Rights Commission, Anti-corruption and Ethics Commission, House of Peoples Representatives, and House of Federation.

11. Other, more sector-specific capacity-building projects are carried out under the Rural Capacity-Building Project, Pastoral Community Development Project (World Bank, 2008). PSCAP, PBS, ULGDP, and DIP have governance related projects that complement each other.

1.2 OBJECTIVE OF THE STUDY AND METHODOLOGY

12. The objective of this report is to review and recommend improvements to Ethiopia's approach to public sector reform, in order to advise the government and executive institutions on the future of its public sector reform. The report also serves as a think piece for the World Bank, other partners, and policy makers. The report provides important basic information about the features of Ethiopia's public sector reform approach, and reviews what worked well and what did not. It draws lessons from other countries' experience to help develop ideas and instruments of future public sector reforms in Ethiopia.

13. The intended readers are government institutions (coordinating, overseeing, and executing institutions) at both federal and regional levels that would be involved in the design and execution of the second-generation of public sector reform in Ethiopia. World Bank country managers, as well as other donor partners in Ethiopia, could also use the report to inform possible future interventions, and to find lessons for better public sector reform projects. Other practitioners can use the report for comparative analyses of PSR approaches.

The study addresses the following questions:

- a. What is the approach of Ethiopian public sector reform? This helps to understand the features and peculiarities of reform programs in Ethiopia. This document reviews reform with regard to areas affected, as well as the approach taken.
- b. What works well and what doesn't work well in the reform approach? This will provide lessons from Ethiopia's experience and indicate how it compares with other countries.
- c. What are the recommendations for improving the second-generation of public sector reform programs for the GTP in Ethiopia?

14. The general approach of the study was consultative, involving key institutions and stakeholders at different government levels. The process consisted of conducting informant interviews, giving questionnaires to staff at selected implementing agencies (at federal and sub-national level), and analyzing the strengths and weaknesses of the programs. The study used an analytical framework to analyze the PSR approach, find its deficiencies and lessons, and formulate recommendations. The study also reviewed other international development case studies, in order to compare those experiences in public sector reform with that of Ethiopia's and extract lessons learned from others' experiences.

15. The data for the analysis of the PSR approach were obtained from interviews, questionnaires, and literature review. The literature review included Country Assistance Strategy (CAS) documents, other assessment documents, PSCAP review reports, and strategy documents from the World Bank and the government of Ethiopia. Initial consultations with stakeholders were followed by a desk review of documents and secondary data collected from field visits.

2. FEATURES OF ETHIOPIA’S PUBLIC SECTOR REFORM APPROACH

16. This chapter looks at some broad characteristics of the PSR initiatives in Ethiopia. It will provide important design features of the public sector reform approach, such as the underlying theoretical basis, interpretations, relationship, and drive for the reform. It also highlights the policy stance and the specific orientations of the PSR, including the instruments linked to decentralization and the architects and roles of program portfolios.

2.1 GOVERNANCE, PUBLIC SECTOR REFORM AND FORCES OF CHANGE

17. The general rubric of governance addresses interrelated and overlapping issues, such as institution building, anti-corruption activities, government accountability, transparency, and legal reform. Good governance is not just one more priority; it is a crucial factor in the developmental landscape and to a large extent determines the public sector’s performance. Therefore, public sector reform leads to good governance.

18. There is no universally accepted definition or interpretation of the term “good governance,” and there are no clear parameters for its scope. The term tends to be used with a degree of flexibility depending on context, purpose, ownership, and management structures. Nevertheless, there is a fair degree of agreement around its core constituent elements. The World Bank (World Bank, 2000) argues that governance is primarily about economic policy-making and implementation, service delivery, and accountable use of public resources and regulatory power.

19. Governance indicators are organized into three clusters corresponding to the basic aspects of governance:

- Process by which those in authority are selected and replaced:
 - Voice and accountability
 - Political instability and violence
- Ability of the government to formulate and implement sound policies:
 - Direction
 - Strategic vision
 - Government effectiveness and efficiency
 - Regulatory burden
- Respect for institutions that govern state-society interactions:
 - Rule of law
 - Graft (control of corruption)
 - Oversight and financial accountability

20. The terms public sector management, public administration, public sector reform, and public sector capacity building are often used interchangeably. The World Bank’s approach broadly defines public sector reform as the art and science of making the public sector machinery work (World Bank, 2011b). It is about deliberately changing the interlocking structures and processes in this sector. It includes changing the de facto behaviors of agents in the public sector and how money, people, and physical resources are deployed and accounted for (World Bank, 2011b). In Ethiopia, PSR is used to understand the initiatives of public capacity building, management, administration, and governance issues in their interrelationships as mentioned above.

21. Governance and capacity building should go hand in hand as they are both necessary to achieve democracy and development. The World Bank concluded that governance and public sector capacity should be, instead of a pillar, the foundation for its strategy for Africa (World

Bank, 2011a). The Bank's experience with implementing the Governance and Anticorruption Strategy contains three important lessons:

- a. Governance reforms are deeply political, and attempts to treat them as technical solutions are bound to fail.
- b. An intimate relationship exists between weak governance and poor public sector capacity in Africa.
- c. The traditional instruments of finance and knowledge assistance, usually delivered through individual sectors, may not be conducive to fostering change for politically charged issues such as governance.

22. A growing number of developing countries embarked on democratization and decentralization policies in the last quarter of the twentieth century. The forces behind this worldwide trend are multifaceted. Ongoing popular demands for democratization and a greater voice for the people are the drivers in many countries. In Ethiopia, PSR is central to the government's objectives of poverty eradication, growth, and democratization, and is part of a clear federalist and decentralized change agenda. The reforms were implemented in a wholesale manner, and aimed to address the deep institutional constraints on basic functions such as policymaking, service delivery, and regulation.

2.2 PSR AS POLICY INITIATIVE

23. The roots of the public sector reforms lie in the government's long-term strategy of state transformation articulated since the early 90s. The broader national capacity-building framework, in which the public sector capacity-building program takes a major share, is central to the government of Ethiopia's objectives of poverty eradication, growth, and democratization. PSCAP is the largest part of Ethiopia's PSR. The efforts to define its reform areas were initiated in different ministries during the late 1990s, and were consolidated in 2001 with the establishment of a Ministry of Capacity Building (MCB). The MCB was given important reform leading functions, such as popular mobilization and coordinating the capacity building programs, alongside its state functions. The public sector reform was considered as a critical policy instrument in the drive for state transformation, and for the modernization of the public service and the country at large. Given the close relationship between party and state responsibility of the lead officials in the MCB and its counterparts at sub-national level, this policy has been pursued purposefully across Ethiopia through well-developed political, executive, and administrative systems.

2.3 LEARNING-BY-DOING ORIENTATION

24. The most important aspect of the public sector reform in Ethiopia was the orientation of the learning-by-doing approach. This has the following features:

- i) A homegrown initiative with heavy investment was made by putting in place a monitoring and evaluation system, in the form of the bi-annual *Woreda* and City Benchmarking Survey (WCBS). The survey integrates structured feedback from both the supply and demand side, to enable sustainable monitoring of impacts of development programs on institutional capacity and service delivery performances across local governments, and to identify the gaps in implementation of the reforms;
- ii) The enforcement of sequencing arrangements, through provision of a fund for completion of "the minimum mandatory" capacity building (defined across subprograms), is required to rapidly build up the basic capacities needed to effectively manage the fiscal additionally generated. This is one of the lessons learned in

implementing PSCAP that would be relevant to other African countries, where there will be variations in the capacity to implement reforms.

- iii) Putting in place financial transparency and accountability mechanisms at the local level, which is initiated both by PSCAP and PBS programs. These mechanisms include the design of budget, expenditure, and service delivery templates that can be used to display and post budgets and service delivery standards for the public. The templates are designed so that those who are not experts in such matters and can easily understand and apply them.
- iv) Creation of an environment for competition, reward, and learning of local practices was important for performance improvement, mobilization, and enhancing growth. For instance, under ULGDP, local governments compete with one another for better performance, which is based on standard criteria contained in an independent annual assessment. In a similar way, criteria have been established in rural areas for creating or identifying model farmers as well as model villages, to motivate and reward good performance at local (*woreda* and village) level.

2.4 DECENTRALIZATION AND PSR ARCHITECTURE

25. The public sector reform in Ethiopia is strongly related to the democratic decentralization that was carried out in two main phases. In the first phase, the government put in place critical elements that are required to ensure that the decentralization in Ethiopia creates accountable sub-national governments that improve service delivery. Thousands of civil servants were deployed from the center to regions. Based on the revised 1994 Constitution, the government formally established an inter-governmental fiscal system, and annually transferred a formula-driven general-purpose grant to regions, consistent with its policy of “balanced regional progresses.” The second phase of decentralization started in 2001/02 by devolving power to *woredas*, with pilots in the four largest regions. This involved series of legal, fiscal, and administrative reforms.

26. **Functional Assignment:** The two phases of decentralization devolved expenditure and revenue responsibilities to regional and *woreda* levels. The public offices at the regional and local levels were restructured to be able to fulfill their new roles. The structures and functional assignments evolved with time, and local governments continued to be responsible for more basic services as the years went by. The *Woreda* and City Benchmarking Citizens Report Card confirms that 88 percent of the local jurisdictions in practice are now providing all basic services, compared to only 25 percent in 2005. This suggests that more and more jurisdictions are responsible for services that are considered basic.

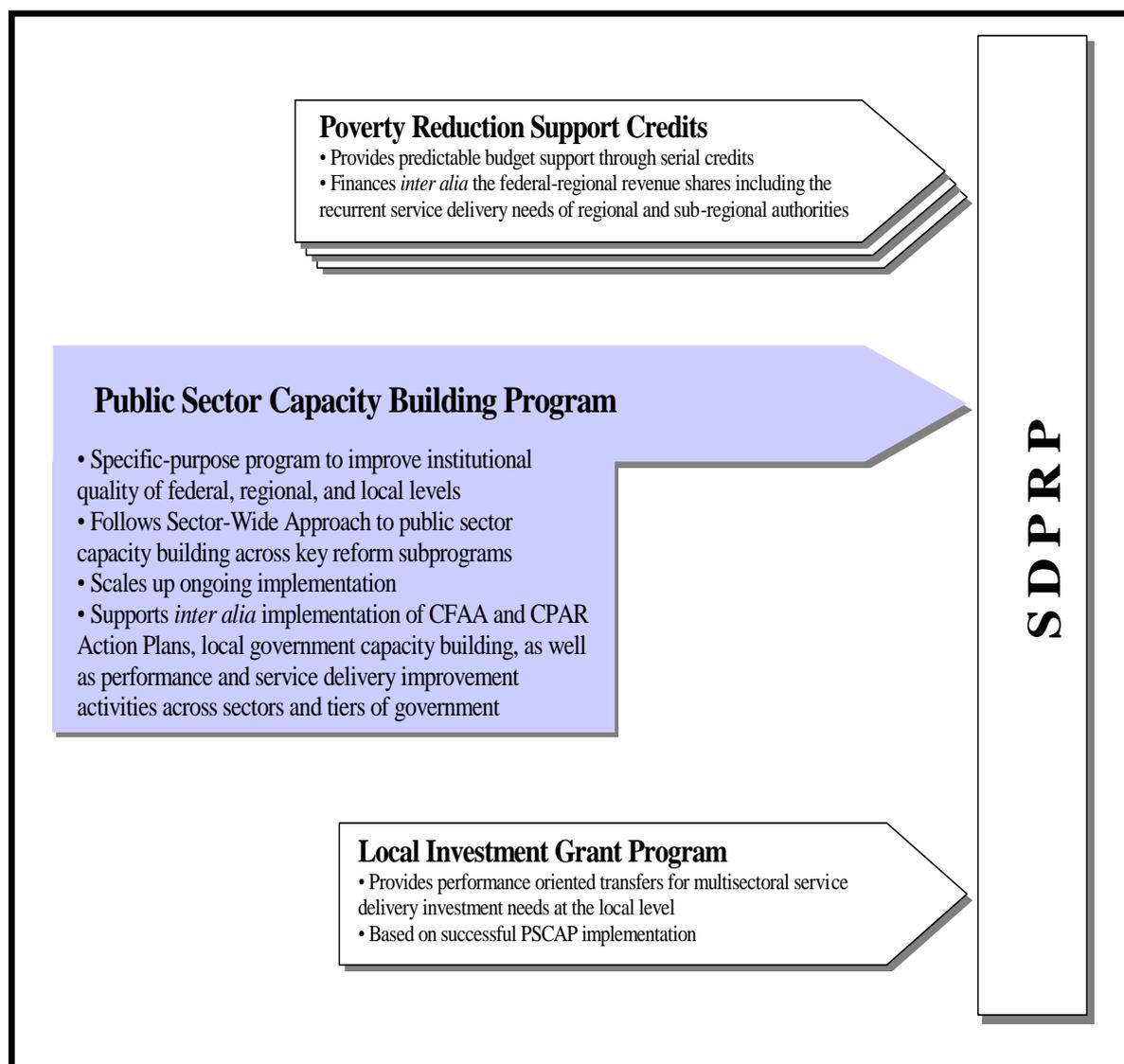
27. Ethiopia’s fiscal decentralization is of special interest to this review because it provides the framework against which the different public sector reform instruments used to support decentralization will be assessed. The fiscal decentralization in Ethiopia evolved over time and was consistent with good practices in that it provides both general- and specific-purpose grants for financing service delivery, cross-sectorial capacity-building, and infrastructure development through decentralized fiscal support. It also complements the inter-governmental fiscal system with sectorial operations that address sector-specific capacity-building issues. The types of transfers are described below.

28. **General-purpose grant:** Ethiopia’s intergovernmental system was initiated with general-purpose transfers that are made from the federal to the regional government, and from the regional government to *woredas*, through a system of non-earmarked block grants. This is a

predictable and transparent transfer to regions and *woredas*. The general-purpose grant is not explicitly regarded as supporting only recurrent expenditures, but practice shows that over 90 percent is spent on recurrent expenditure, particularly at the local level. The Bank and other cooperating partners were providing budget support to the government's overall pool of resources, and through that to the federal-regional general-purpose grant. PRSC and its continuation through PBS contributed to increasing the pool of funds for the government's equity based general-purpose grant to regional and local governments. The PBS introduced the SAFE approach (Sustainability in Additionality, Accountability and Fairness, Fiduciary Standards, and Effectiveness) to ensure the pool of financial resources is transferred to regional governments. The program also includes performance-based local investment grants (LIGs) to improve basic service delivery (in PBS I/II). The program is monitored through semi-annual government and DP Joint Review and Implementation Support (JRIS) missions. To allow for informed discussions of the government and Development Partners' contributions to the PBS program through its fiscal system, these missions include Joint Budget and Aid Review (JBAR) sessions. In these sessions all stakeholders review fiscal data from all sectors and levels of government. PBS helped in recruiting teachers, health workers, agriculture extension workers, etc. However, the availability of an ever-increasing pool has made it very easy to split local governments, and to increase staffing at the local level, at times beyond what is needed. Although increasing the number of frontline workers is very important, it should be managed to a size that can be sustained even if donor support were to be stopped. In addition, the transition to PBS, while weakening the dialogue on macro and structural policy measures, introduced elements of transparency and accountability on specific aspects as a safeguard. Some of the capacity-building activities to safeguard the fund have expanded over time, and overlap with other public sector capacity-building programs. This will eventually undermine Ethiopia's good design, which currently separates different instruments of transfers for recurrent, capacity, and infrastructure.

29. Before continuation through PBS, budget support was channeled as PRSCs. The following figure shows the architecture and roles of PRSC, PSCAP and LIG in the 2003-2005 CAS.

FIGURE 1: THE ROLE OF PRCS, PSCAP, AND LIG IN THE 2003-2005 CAS



30. **A performance-based capacity-building grant:** The decentralization efforts required the government to embark upon a number of institutional reforms, to help establish a durable federal state system and further its democratic transition. The Capacity Building for Decentralized Service Delivery project (CBDS) piloted demand-based financing for civil service reform and urban management. The crosscutting capacity-building and public sector reforms were scaled up under PSCAP. The public sector capacity-building program was designated as a federal, specific-purpose transfer program, appropriated at the federal level, with vertical division of resources between federal and regional (20/80) and the use of the same grant formula for horizontal division of time-bound drawing rights to resources across regions, followed by performance based disbursements as well as mid-year reallocation of a share of drawing rights to performers. Sub-programs and regions report on the resources on an annual basis. The Minister of Capacity Building, as the overall coordinator, reports to Parliament on the utilization and results of the project, which shows the relation to the formal systems of accountability.

31. The establishment of this program marked an important step forward in the evolution of Ethiopia's intergovernmental fiscal system. As a federal specific-purpose program, it provided the

legal basis for PSCAP transfers to be appropriated federally, and therefore, enabled regions to draw down external assistance without being subject to “offsets” in their general-purpose transfers. In addition, the original PSCAP design provided for in-year and annual reallocations, between sub-programs and regions, based on performance. However, PSCAP’s intention to complement the largely equity-oriented general purpose grant transfers to regions with a performance-oriented capacity building transfer to help sub-national authorities achieve their institutional transformation goals were not materialized and as a result there have been no in-year reallocations. Some argue that there is a legitimate reason for not implementing the performance based-reallocation at this time. This is because a performance-based grant will actually penalize the underperformers, which are the institutions with the least capacity and that the program intends to assist. Going forward, in line with the government’s orientation on performance, the intergovernmental system needs to evolve to higher parameters of performance, while at the same time ensuring level playing field for both the relatively advanced regions and the developing regions.

32. The reforms under PSCAP were implemented in a wholesale manner consistent with the policy of “balanced regional progress,” to address the deep institutional constraints on basic functions such as policymaking, service delivery, and regulation. These programs created an enabling legal environment by enacting proclamations, and establishing and strengthening structures, systems, and skills. All of these were needed to enhance service delivery, empower citizens, and enhance accountability. Ethiopia has succeeded in creating a certain level of capacity using its wholesale and top-down approach, which assured equity among regions. This fact, along with Ethiopia’s goal to become a middle-income country in the next decade, requires the federal government to operate at even higher levels so that regions can identify and maximize their competitive advantages, using regional development strategies that promote specialization and growth corridors.

33. **Performance based investment grant:** Financing of infrastructure in rural *woredas* was done as a pilot through the PBS, while in urban areas it was accomplished through the Capacity Building for Decentralized Service Delivery project (CBDS) up to 2006 and through Urban Local government Development Program (ULGDP) at present. As a Specific Purpose Grant, LIG performed well in financing small-scale capital investment projects at local level when compared with the capital investments done through the share of capital expenditure under the Federal Block Grant. It has empowered the *woredas* by not only giving them additional resources for undertaking capital investments, but also by enabling them further to undertake planning and budgeting at their own disposal and be more accountable to people in the processes. LIG has not been scaled up and has suffered from a shortage of funds, as well as a complex compliance system. LIG has been canceled from PBS, which is the right decision to ensure clear separation between instruments. However, it is important that this is continued as a specific-purpose grant to improve service delivery and bring meaningful participation to citizens.

34. In urban areas, the CBDS focused on structural reforms and building capacities in key urban local governments (18 regional cities, plus Addis Ababa) to systematically build capacity and to design, implement, operate, and maintain priority services in urban local governments. The specific development objective of the ULGDP is to support improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure by urban local governments. This support for the urban local governments needs to be scaled up to cover a larger number of cities.

3. MAJOR ACHIEVEMENTS OF PUBLIC SECTOR REFORM

35. This chapter describes the major achievements of the PSR with respect to the broader elements of decentralization, service delivery and governance, accountability, transparency, and overall performance on public sector management and capacity-building in general.

3.1 DECENTRALIZATION

36. A singular strength of PSR in Ethiopia is that it is grounded in the federal and decentralized system of government, in line with the constitution. Government has effectively established an institutional grid at all levels, and incorporated regions and *woredas* into the transformation process. It is thus inclusive and participatory.

37. With regard to deepening decentralization and public administration, the District Level Decentralization Program (part of PSCAP) supported the second phase of decentralization to districts. The major achievements include:

- Developing a prototype legal framework and manuals on the framework and on policy;
- Determining a region-to-*woreda* fiscal transfer formula;
- Restructuring *woreda* offices, human resource planning, and *woreda* personnel administration;
- Establishing a grassroots participation framework; and
- Setting minimum standards for service.

38. To meet the urgent need of local governments to start their work, basic IT equipment such as computers, fax machines, and photocopiers were procured and dispatched to all *woreda* pool offices. On-the-job training was given on planning, budgeting, accounting, and reporting. Apart from this, training was offered through regional governments on policies, strategies, and on how to prepare strategic plans by *woredas*. These activities created the initial structure and a critical mass of people to achieve their missions. The prototypes were rolled out through regional governments. The system of grassroots participation has been especially well established, and it has responded to the needs of the citizens.

39. At regional, *woreda/city*, and *kebele* level, the Good Governance Package (GGP) (part of the DLDP) created or strengthened pertinent structures to ensure institutional preparedness to make governance more inclusive.

40. In relation to the achievements on fiscal decentralization, the program has actively decentralized resource management to sub-national levels of government. Fiscal transfers are made on credible formulas despite lack of financial resources for capital investment at the local level. The local fiscal autonomy expressed in terms of ratio of own revenue to expenditure is low (20 percent). However, in order to narrow the vertical fiscal gap, grant transfers to regions have been increasing. The PSCAP Mid-Term Review found a positive trend in relation to the size and predictability of financial flows in both Federal to Region and Region to *Woreda* levels of administration. From 2003/04 to 2007/08, the federal-to-regional transfers increased annually by approximately EBr.2 billion and increased further by EBr.3.5 billion in FY 08/09. Federal-to-regional transfers increased by an annual average of 24 percent for the last four years. At the regional level, transfers to *woredas* proportionally increased with a bulk of the transfer pool (on the average more than 70 percent) allocated to *woredas* in the respective region in order to minimize the fiscal gap. The variance between the planned and actual capital expenditure has been progressively minimized both at federal and regional level.

41. Since 1995, the general-purpose grant distribution from federal to regional level has been effective based on objective indicators reviewed and approved by the House of Federation. Although frequent modifications have been made, the indicators basically measure expenditure requirements and revenue raising capacity. Similarly, the *woreda* block grant provided legitimacy for the devolution of power. The formula has been adapted from the federal basic needs formula and improved to take into account expenditure needs and unit costs, as well as to use a weighting approach.
42. The financial source of the Local Investment Grant (LIG) is the federal government's PBS fund and it was used in selected pilot *woredas*. The regional allocation was based on the federal general-purpose grant formula. Pilot *woredas* received funds amounting to 30 percent of their previous year's budget. However, there were not sufficient funds to replicate the pilots nationwide, so the government canceled the LIG.
43. The federal government has now brought in an alternative financing arrangement to be administered by regional states that replaces the LIG. This new MDG fund for additional finance was introduced as a performance-based, specific-purpose grant in 2012, to support capital investments to help achieve the MDGs in the same five basic service sectors that were addressed by the PBS Project. The fund is allocated from the Treasury to regions using the federal block grant formula. Regions decide on how to spend the funds in consultation with the federal government. The projects implemented using this fund requires maintenance cost from another source.
44. The allocation of resources to the ULGDP participating cities is based on performance, which is evaluated independently each year, as well as based on condition of full allocation, acceleration, and suspension. Each region and the participating city should contribute 20 percent each, so as to complement the 60 percent resource allocated by International Development Agency (IDA). The ULGDP project has helped to introduce a new and systematic way for citizens to participate in development activities, which significantly empowered CSOs in all the participating cities. It has also enabled the participating cities to mainstream their city investment plans, disseminate key information to the public, prepare revenue enhancement plans, prepare asset management plans, and introduce city government auditing. The PBS enhanced the budget for basic services and their equitable use, direct system effectiveness, improved decision-making, and donor participation.
45. USAID published a comparative study of decentralization in ten African countries (USAID, 2010) that describes experiences, good practices, and possibilities for learning. The study compared three federal countries (Ethiopia, Nigeria, and South Africa), four strongly centralized countries (Botswana, Burkina Faso, Mali, and Mozambique) and three countries (Ghana, Tanzania, and Uganda) that are in-between centralized and decentralized.
46. In general, the three federal countries all have significant legacies of identity politics that shaped the choice for decentralization and all have faced the prospect of civic unrest or instability as a result. Some of the success stories in these countries include: institutionalizing legal authority, building administrative capacity (with variation in countries), promoting fiscal autonomy, and decentralizing political accountability. Decentralization was intended, at least in part, to manage political rifts and to promote stability. These countries have decentralized their politics to multiple levels of sub-national governments, along with considerable fiscal devolution. Consistent with the existence of federalism, these countries exhibit higher levels of authority and autonomy in sub-national governments than the other countries in the study. Institutional frameworks for intergovernmental relations are also better developed.

3.2 SERVICE DELIVERY

47. The PSR has driven a series of reform initiatives across the public service that focuses on improving efficiency in service delivery, in addition to building accountability and responsiveness to citizens for meeting service standards. Through PSCAP, tangible results have been seen to enhance the scale, efficiency and responsiveness of public service delivery at federal, regional, and local levels. PBS is the major aid instrument for providing finances to local level government to basic services. Health, primary school, water, agriculture, and—to some extent—rural road services have improved, although it is difficult to attribute all the improvements to PSCAP, PBS, or ULGDP. In most cities, the improved infrastructure and services have brought additional opportunities to communities. People are encouraged to improve their housing conditions, to start small businesses and to try to diversify their sources of livelihoods following the construction of cobblestone roads. The construction of markets and the development of micro and small enterprises in some of the cities have also improved the livelihoods of poorer communities and assisted the mitigation of urban poverty.

48. As noted before, the WCBS confirms that 88 percent of the local jurisdictions are now providing all basic services compared to only 25 percent in 2005, which suggests that in more and more jurisdictions, the public is having better access to services considered basic. Similarly, satisfaction with basic services is also improving. Citizens using government health facilities in 2011 have increased compared to the 2008 level, from 50 percent to 84 percent in urban areas, and from 77 percent to 94 percent in rural areas. Overall satisfaction with the health services increased from 62 percent to 70 percent, while households satisfied with the waiting time, availability of drugs, and attitudes of the medical staff increased from 66, 53, and 66 percent respectively in 2008 to 81, 54, and 74 percent in 2011 respectively. The overall satisfaction on primary education service increased from 84 percent to 94 percent; on solid waste from 70 percent to 74 percent; and on agricultural extension service from 90 percent to 94 percent over the same period. However, there is no clear evidence of growing satisfaction for water supply (61 percent in 2008 to 58 percent in 2011), there has been a 16 percent fall (from 26 percent to 10 percent) in the proportion reliant on unprotected water sources over the past three years. Revenue Administration services and tax collection by federal and regional revenue offices has also increased.

TABLE 1: WCBS RESULTS FOR SELECTED METRICS IN 2005 AND 2011

Metric	WCBS 2005	WCBS 2011
Percentage urban jurisdictions that provide all basic services	25	88
Percentage rural jurisdictions that provide all basic services	77	94
Overall percent satisfaction with healthcare services	62	70
Percentage households satisfied with waiting time in health care facilities	66	81
Percentage households satisfied with healthcare staff attitudes	66	74
Percentage households satisfied with drug availability	53	54
Overall percent satisfaction with primary education	84	94

Metric	WCBS 2005	WCBS 2011
Overall percent satisfaction with solid waste services	70	74
Overall percent satisfaction with agricultural extension services	90	94

Source: WCBS I & WCBS IV, PSCAP, Addis Ababa

49. Restructuring and performance improvement was achieved with BPR at federal, regional, and *woreda* government levels in almost all public institutions. The BPR was instrumental in:

- Clarifying organizations' strategic vision, mission, mandates, and products, in addition to enhancing their top leadership's appreciation of strong institutions;
- Simplifying work processes and requirements, which resulted in substantially shorter transaction times for most services;
- Developing service standards that are now the foundation for developing the citizens' charter;
- Establishing important structures and offices, as well as decentralizing tasks to lower levels of government, which lowers the cost of government services while giving citizens better access to them;
- Bringing together related services to establish one-stop shops;
- Enhancing customer orientation in public services, which is still the central focus of the reform; and
- Bringing performance orientation to the public service through the balanced score card performance management system.

50. Long-term training has significantly increased the number of qualified civil servants at the sub-national level. In an assessment on the training aspects of PSCAP, 87 percent of the respondents were positive and found the training courses they had taken useful.

51. Together with the BPR, the training has improved access to services, staff responsiveness, and cost efficiency in priority sectors. Unit costs and processing times in service delivery have also decreased. For example, based on reviews conducted, investment licensing and after care service provision by the Investment Commission of Ethiopia took 10.5 days and it was planned to be reduced by half to 5.5 days, but now it is reduced to hours (5.5 hours). The 20 steps used to get the service are reduced to one step window-shopping as planned. The table below shows how processing times changed for a variety of government services after BPR.

TABLE 2: SAMPLE PUBLIC SERVICE PROCESSING STEPS AND TIMES (BEFORE BPR, DESIGN AFTER BPR, AND ACTUAL IMPLEMENTATION AFTER BPR)

Sector/institution	Service	Average processing time					
		Before BPR		Design After BPR		Actual	
		# of steps	Time	# of steps	Time	# of steps	Time
Tax Office	Tax collection	8	4.5 h ^a	1	51 min ^b	1	15 min
Investment Commission	Investment licensing and aftercare	20	10.5d ^c	1	5.5 h	1	2.5 h
Trade and Industry Bureau	Organizing MSEs	11	134.5 d	4	34.5 d	3	27 d
	Licensing	7	17.5d	1	2 h	1	51 min
	Credit facility	13	146 d	5	34 d	5	27 d
	Market linkage	28	429 d	5	51 d	4	40 d
	Consoling	35	37.5 d	1	4.5h	1	2.5 h
Supreme Court	File opening	6	1 d	1	41 min	1	24 min
Justice	Information	5	6 d	1	1.5 h	1	27 min
	Receiving a complaint	8	23.5 d	1	1 h	1	27 min
	Preparing charges	7	26 d	3	4 d	2	3 d
	Trial proceedings	11	374 d	3	8 d	4	6 d
	Appeal proceedings	12	163 d	4	13 d	4	12 d
	Cassation proceedings	14	333 d	5	15 d	5	17 d
Civil Service Commission	Restructuring & job grading	14	115 d	6	35 d	6	34 d
	Research and prepare HRU guidelines	12	200 d	6	47 d	5	38 d
	Supervise implementation of Civil Service laws	12	79 d	5	23 d	4	20 d
	Adjudicating system	11	104 d	4	16 d	4	12 d

Sector/institution	Service	Average processing time					
		Before BPR		Design After BPR		Actual	
		# of steps	Time	# of steps	Time	# of steps	Time
	Human Resource (HR) statistics	21	286 d	6	92 d	5	82 d
	HR planning	14	120 d	5	38 d	4	32 d
	HR development	10	140 d	4	39 d	4	32 d
Education Bureau	Teacher recruitment	17	105 d	5	17 d	6	13 d
	Teacher transfer	10	90 d	4	23 d	4	20 d
	Prepare, publish & distribute textbooks	22	648 d	8	120 d	7	119 d
Agricultural and Rural Development Bureau	Agricultural extension service delivery	16	75 d	4	12 d	4	8 d
	Natural resource development, conservation and utilization	31	261 d	8	35 d	6	38 d

Notes:

^a h = hours

^b min = minutes

^c d = days

52. Parallel to the BPR implementation, the increased use of information and communication technologies has modernized working systems and improved government's performance, as the UN e-Government index confirms. Ethiopia's ranking for online services improved from 126 in 2005 to 80 in 2012, out of 174 countries surveyed.

53. Major IT infrastructure investments were made to strengthen the existing national data center, the 11 regional centers, and the 560 *woreda* data centers, as well as to expand the same infrastructure to an additional 175 *woredas*. Moreover, the federal network master plan is now fully operational in 32 federal ministries and agencies, and is being procured for an additional 15 institutions. This infrastructure was initially used for video conferencing (VC), file sharing, email, and voice communications. Its use has now expanded to hosting eight web portals, 28 federal websites, and 10 applications, including the Integrated Budget and Expenditure (IBEX) management system and VC-assisted court proceedings. Since 2009, over 21,680 court cases were heard using the VC facility, which enhances access to justice services and reduces their costs. Furthermore, WoredaNet is now used for 127,715 remote training sessions per year, thereby significantly reducing the cost of training. Networked government offices at regional level increased to 162 in 2012 from only 17 in 2005.

54. Following the IT infrastructure development, the Ministry of Information and Communication Technology (ICT) identified 210 services that are suitable for delivery as e-services. Applications

for online trade registration and licensing, as well as online exam registration and college placement recently became operational as pilots. Three informational services, namely e-billing for the Ethiopian Electric Power Corporation, foreign currency for the National Bank of Ethiopia, and examination results for the Ministry of Education were implemented as pilots using mobile text messaging. Over 35,000 people access these services monthly. The Ministry of Labor and Social Affairs offers twenty transactional services online. Following these pilots, the first phase of e-service expansion (33 new service areas for six ministries) is in the final stage of development. The second phase for 31 online services and 54 informational services through mobile devices and the Internet is being procured.

55. Furthermore, a number of sectors developed Management Information Systems (MISs) to increase their effectiveness in sharing information at federal and regional level. At federal level, the ICT sub-component has helped to develop an MIS for the Ministry of Transport, the Environment Protection Authority, and the National Archive and Library Agency. At regional level, new MISs are in six sector bureaus in Oromia, used for land and transportation management in Tigray, land and food security Bureau in Amhara, and in Benishangul for health and education. The Urban sub-program at federal level also procured the hardware and software to start preparing base maps for 175 cities. Satellite imagery for 94 towns has been received and will be used to create base maps of these towns.

56. As a result of enhanced forensic laboratory facilities, crime-free fingerprint certification now takes one day, compared to 30-90 days before. The laboratory now serves 2,000 people daily (compared to 100 before), drug analysis takes four hours compared to 15-20 days, and the number of cases resolved yearly increased from 500 to 1300. Document examination, including signature analysis, is done in five days compared to one to six months, and the number of cases handled increased from 340 to over 1,000 per year. This system, in addition to reducing processing times, has enhanced the quality and accuracy of evidence and so improves the justice service, while those who are personally consulted on development issues increased from 17 percent to 20 percent over the same period. Citizens who know what taxes and fees they are legally required to pay increased from 60 percent in 2008 to 81 percent in 2011. PBS program supports financial transparency and accountability in the use of public financial resources.

57. The administration and efficiency of the justice system and redress mechanism for citizens has improved. Court clearance rates are above 80 percent and the numbers of cases that have been pending for more than a year have reduced significantly under the Justice System Reform Program (part of PSCAP). Access to case information has also improved significantly through a better filing and recording system, the use of information counters, toll-free calling centers, touch screens, and other improvements. The court reform program has strengthened and standardized the court management system, and improved accessibility to courts by using mobile divisions and visiting benches. Other components of the criminal justice system have been improved. The police reforms have strengthened community policing and reduced crime. The prison administration has improved the human rights condition of prisoners and reduced recidivism.

3.3 GOOD GOVERNANCE, ACCOUNTABILITY AND TRANSPARENCY

58. Transparency and accountability have also improved since PSR started. Under PBS, PSCAP and ULGDP important steps have been taken to disclose information and increase citizens' participation in, and interactions with, government. Those who know their *woreda* budget and strategic plan increased from 13 percent and 17 percent in 2008 to 20 percent and 19 percent in 2011 respectively. Citizens who know council meetings are open to the public increased from 11 percent in 2008 to 32 percent in 2011. Citizens who think an ordinary person can do something to

hold local government leaders to account if they fail to keep their promises increased slightly from 47 percent to 49 percent in the last 18 months. Confidence that concerns raised regarding local government's service quality will be addressed seems to have recovered slightly after a considerable loss between 2008 and 2010. Confidence that local government will address concerns raised in relation to quality of service in health care increased from 56 percent to 58 percent, and in relation to water from eight percent to 14 percent.

59. The institutionalizing of the GGP, with standardized regulations, templates, and manuals for sedentary and pastoralist regions is a major achievement. In cities, citizen groups now participate more in the capital investment planning process. City governments are better at disseminating information to the public on budget, expenditure, investments, results of bid evaluations and contracts awarded (Bekele and Mebrate, 2012). The alignment of capital investment planning with citizens' priorities is well above 50 percent in cities (Bekele and Mebrate, 2012). Guidelines to safeguard citywide investments have also been initiated.

60. PBS program supports financial transparency and accountability in the use of public resources. This includes transparency around public budget procedures (planning, budget preparation, expenditure, and audits) and public service delivery. This support includes budget literacy and media dissemination.

61. ICT has enabled the improvement of access to information and transparency. Ethiopia's ranking in the UN e-Government index for e-participation improved from 170 in 2008 to 19 in 2012 out of 174 countries surveyed.

62. Expenditure management reform was instrumental in updating outdated public finance laws and eliminating account backlogs. Currently no accounts are in arrears, compared to a backlog of at least two years in 2005. Significant improvements have been made in the use of double entry and ICT-assisted accounting, regularly reconciling fiscal and bank records, and internal and external auditing. These measures improved the timeliness and quality of financial reporting. Performance-based budgeting was introduced using the Budget Information System, the Budget Disbursement and Accounts system, and the Integrated Budget and Expenditure Management system. The *Woreda* and City Benchmarking Supply Side Survey results of the 2008 revealed that 83 percent of jurisdictions had implemented the double entry accounting system. Additionally, the survey showed that only 30 percent of jurisdictions were rated good performers in 2005.

63. Horizontal accountability mechanisms were established to enhance transparency and accountability. A review of the GGP by independent consultants found that new institutional arrangements at *kebele* level expedite inclusion, transparency, and accountability. These arrangements include:

- Deploying over 10,400 trained *kebele* managers who are fulltime local government employees to serve as the secretariat for the *Kebele* Council, which is the main point of contact to provide citizens with information and to handle complaints;
- Establishing complaint handling focal points at *woreda* and regional level; and
- Establishing or revamping 8,248 social courts across the nation to handle small claims and mediations.

64. **Overall achievements on public sector management and capacity building have been encouraging.** Prior to 2005 Ethiopia had some initiatives to improve public sector management, with good results compared to some other African countries. For instance, in the government's

four-year plan for Ethiopian civil service reform (1997-2000) had developed the future vision of the civil service and was committed to reversing the challenges of bureaucratic arrangements that hindered reform and democracy, outdated management, unethical practices, rising incidence of corruption, and embezzlement and fraud, as well as the effects of Ethiopia's ranking of having the lowest level of recurrent expenditure in the world (PMO Task Force, 1997). Similarly, an independent review of World Bank support to capacity-building in Africa in four countries in specific reform areas revealed that the overall effectiveness assessment rate for Ethiopia was marginally satisfactory, which reflects enhanced attention to capacity constraints since the late 1990s with variation in attention across the four service sectors. In comparison, Mozambique was rated as moderately satisfactory, Benin as moderately unsatisfactory, and Ghana as marginally unsatisfactory (PSCAP, 2005).

65. Post-2005 records also show that improvements have been recorded on six of PSCAP's outcome indicators: (1) Increased Predictability and Adequacy of Financial Resource Flows (In-Year and Across Years); (2) Greater Inclusiveness and Transparency of Planning and Prioritization Processes; (3) Enhanced Fiscal Autonomy and Improved Revenue Administration at all Levels; (4) Enhanced Incentive Environment for Public Servants; (5) Improved Quality and Efficiency of Operations, (6) Improved Transparency and Accountability.

66. In conclusion, the various PSR programs have contributed much to decentralize government, improve service delivery, and enhance governance at all levels in Ethiopia.

4. ANALYSIS OF ETHIOPIA’S APPROACH TO PUBLIC SECTOR REFORM

4.1 INDICATORS

67. This section analyzes Ethiopia’s PSR approach to program, institutional, and content levels, using indicators of effectiveness, efficiency, relevance and ownership/commitment. The relevance of the PSR design is assessed with regard to its objectives and in light of the effectiveness and efficiency of interventions. These analytical indicators have been selected based on theoretical foundations and from commonly applied review experiences of countries. For instance, in developing some fundamentals of measurement for The African Capacity Building Foundation, Ogiogio (2005) identified six generic indicators to assess capacity-building interventions at macro, program, institution, and project levels. These indicators measure the effectiveness, relevance, ownership, efficiency, impact, and sustainability of an intervention. Furthermore, most conventional assessments use intermediate output and outcome-related measurements to analyze reforms. Drawing on these experiences, this ESW uses the following four primary indicators to review Ethiopia’s PSR approach:

- 1) Effectiveness of the public sector reform interventions as measured by:
 - Governance indicators
 - Effectiveness in the following reform content areas:
 - a) Decentralization/Fiscal federalism
 - b) Budget implementation and expenditure management
 - c) Revenue generation
 - d) Human resource management, wages, and incentives
 - e) Restructuring and improving service delivery
 - f) Accountability and transparency
 - g) Local planning, participation, and social accountability
- 2) Efficiency of delivering the interventions as measured by:
 - Efficiency of operational modality management
 - Quality of tracking, M&E mechanisms, and communication strategy
- 3) Relevance/appropriateness of the public sector reform approach in terms of:
 - The reform program’s “Big Push” design, contents, and instruments
- 4) Country ownership/commitment and institutional leadership and sustainability

4.2 EFFECTIVENESS OF THE INTERVENTION: GOVERNANCE INDICATORS

68. The broader analytical tool for measuring PSR effectiveness is using governance indicators. The Ethiopian first generation PSR (2005-2012) has made significant strides in state transformation, ensuring good governance, improving efficiency of service delivery, poverty reduction, and sustained economic growth. However, there are still challenges, unmet needs, and new areas of interventions that remain to be considered. An effective PSR program will have visible effects on the overall institutional and governance results.

69. One measure of governance is the Worldwide Governance Indicators, published annually by the World Bank for more than 200 countries. It measures governance using six indicators. One of the indicators—government effectiveness—reflects perceptions of the quality of public services and the civil service, its degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. The table below (Table 3) shows Ethiopia’s scores for the six governance indicators from 1996 to 2010. Accordingly, two of the indicators, government effectiveness and regulatory quality

improved over the whole period, while control of corruption did improve slightly. Voice and accountability, political stability/absence of violence, and the rule of law indicators became worse. As indicated in Table 3 below, Ethiopia’s government effectiveness has shown trends of improvement in the last seven years, as expressed in scores from -1.28 in 1996 to -0.35 in 2010 (generally scores of governance effectiveness range from approximately -2.5 for weak performance to 2.5 for strong performance). The scores indicate tendencies and appropriate interpretation for an emerging democracy and a developmental state like Ethiopia require further complementary assessments.

TABLE 3: ETHIOPIA’S ESTIMATED SCORES ON GOVERNANCE INDICATORS (ESTIMATES RANGE FROM APPROXIMATELY -2.5 (WEAK) TO 2.5 (STRONG GOVERNANCE PERFORMANCE))

Indicator	Score ¹			
	1996	2002	2004	2010
Government Effectiveness	-1.28	-0.93	-0.71	-0.35
Regulatory Quality	-1.34	-1.23	-0.96	-0.88
Political Stability and Absence of Violence/Terrorism	-1.05	-1.30	-1.26	-1.71
Voice and Accountability	-1.10	-1.24	-1.11	-1.31
Control of Corruption	-1.16	-0.73	-0.70	-0.70
Rule of Law	-0.84	-0.87	-0.73	-0.76

Source: *Worldwide Governance Indicator (2011)*.

¹Note: These scores are estimates based on a number of underlying data sources that may differ from one another. The error margins are specified with the estimates.

70. While Table 3 shows Ethiopia’s performance over time, how does it rate relative to other countries in the region? Table 4, as well as Figure 2 and Figure 3 show Ethiopia’s percentile ranking on the governance effectiveness and regulatory quality indicators compared to five other countries (Kenya, Uganda, Ghana, Nigeria, and South Africa). In government effectiveness, Ethiopia started off during the mid-1990s in the lowest rank, but there is a strong positive trend that shows Ethiopia progressing faster than the other countries, consistent with the within-country time series evidence indicated in Table 3. Other indicators of governance effectiveness strengthen this evidence of progress.

71. According to the international comparative studies/surveys, for instance, based on the Joint Governance Assessment and Measurement Initiative (J-GAM, 2008), Ethiopia’s score for overall governance effectiveness was 37 percent in 2007, compared with the regional average of 20.8 percent. Similarly, the Mo Ibrahim Index of African Governance was created in recognition of the need for a more objective and quantifiable method of measuring governance in the countries of sub-Saharan Africa. According to Mo Ibrahim Index of African Governance, the overall score for Ethiopia was 46 percent in 2006 and reached 47 percent in 2012. This score is close to the continental average score of 51 percent in 2012, but far to the highest country score, in Mauritius, at 83 percent. The highest regional average score is for Southern Africa (59 percent) and the lowest regional average score is for Central Africa (40 percent). This is compared to the country level lowest score is recorded for Somalia (seven percent). Ethiopia ranked 33rd out of 52 countries (Ibrahim Index of African Governance, 2012).

72. On the other hand, some in-country based studies reflect positive developments on the ground, although the data or values of indicators in the different local studies have not been assembled to provide generic measurements and make comparisons with other countries. Accordingly, regarding the indicator of control of corruption, Ethiopia's Country Self-Assessment Report of the African Peer Review Mechanism (APRM, 2009) describes that the government has credence in reducing corruption by establishing an anti-corruption watchdog. This helps the persecution and sentencing of many high-profile corruption cases, as well as initiating the registration of the incomes and property of high-level politicians and senior public servants. The Ethiopian Second Corruption Perception Survey (FEACC, 2012) also indicates corruption has not yet become endemic and deep-rooted. There is a danger that this could increasingly grow into a serious menace to the social fabric of Ethiopia. Much of the corruption that takes place is petty and not among the topmost problems faced by the citizens.

73. Improvements are made on voice and accountability indicators, as democratic processes are put in place for citizen participation. Additionally, improvements are made to government economic policies, making them more transparent, predictable and credible. Further improvements are made to proclamations and regulations for effective and transparent management, such as effective operational procedures for public financial management, as well as internal and external audits (Ethiopia Country Self-Assessment Report of the African Peer Review Mechanism/ APRM, 2009). However, opaqueness and lack of transparency are especially seen in the manner in which public institutions interact with business enterprises in areas such as customs clearance, taxes and revenue collection, application and interpretation of regulations, as well as in government procurement (FEACC, 2012).

74. There is political stability in the country and the government has reduced violence by people participating in the democratization process, conflict resolution, and security. The rule of law prevails and is substantially better than what it was during the years preceding the present government. Federal Constitution and other laws of the country contain more than adequate provisions that seek to ensure that the government, officials, and all citizens are subject to the law and should conduct themselves accordingly. According to APRM (2009), the practice matches the dictates of the law despite incidents over some years. Courts have reduced the cost of litigation and improved access to justice significantly. The study on independence, transparency, and accountability in Ethiopian judiciary indicates that the independence of courts is adequately recognized and protected in the Ethiopian Constitution and the various laws. Judicial independence has improved in practice, but progress remains to be made.

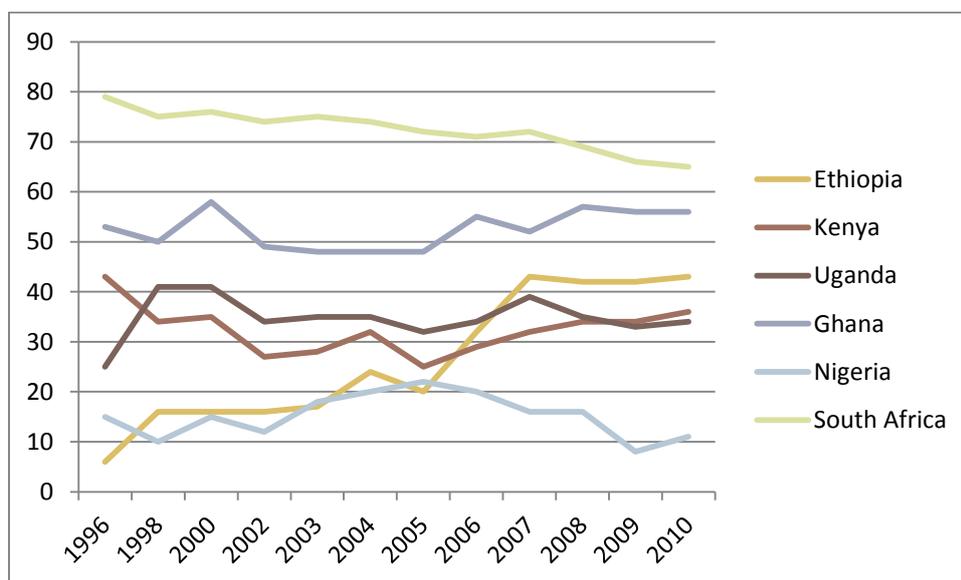
75. The local studies/surveys data, or values of indicators related to governance, have not been assembled to provide generic measurements and make comparisons with other countries. The major studies/surveys conducted are the Corruption Perception Survey of the Federal Ethics & Anti-Corruption Commission (FEACC), Ethiopia - Country, Self-Assessment Report (2009) of African Peer Review Mechanism/APRM, study on independence, transparency, and accountability in Ethiopian judiciary, among other things.

TABLE 4: GOVERNANCE EFFECTIVENESS INDICATOR PERCENTILE RANKING FOR ETHIOPIA IN COMPARISON TO OTHER SELECTED SUB-SAHARAN AFRICAN COUNTRIES (0 IS LOWEST, 100 IS HIGHEST RANKING FOR 112 COUNTRIES)

Country	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	Avg.	Av. growth rate
Ethiopia	6	16	16	16	17	24	20	32	43	42	42	43	26	24.9%
Kenya	43	34	35	27	28	32	25	29	32	34	34	36	33	-0.8%
Uganda	25	41	41	34	35	35	32	34	39	35	33	34	35	4.8%
Ghana	53	50	58	49	48	48	48	55	52	57	56	56	52	0.8%
Nigeria	15	10	15	12	18	20	22	20	16	16	8	11	15	1.5%
South Africa	79	75	76	74	75	74	72	71	72	69	66	65	72	-1.7%

Source: Worldwide Governance Indicator (2011), calculated averages and growth rate

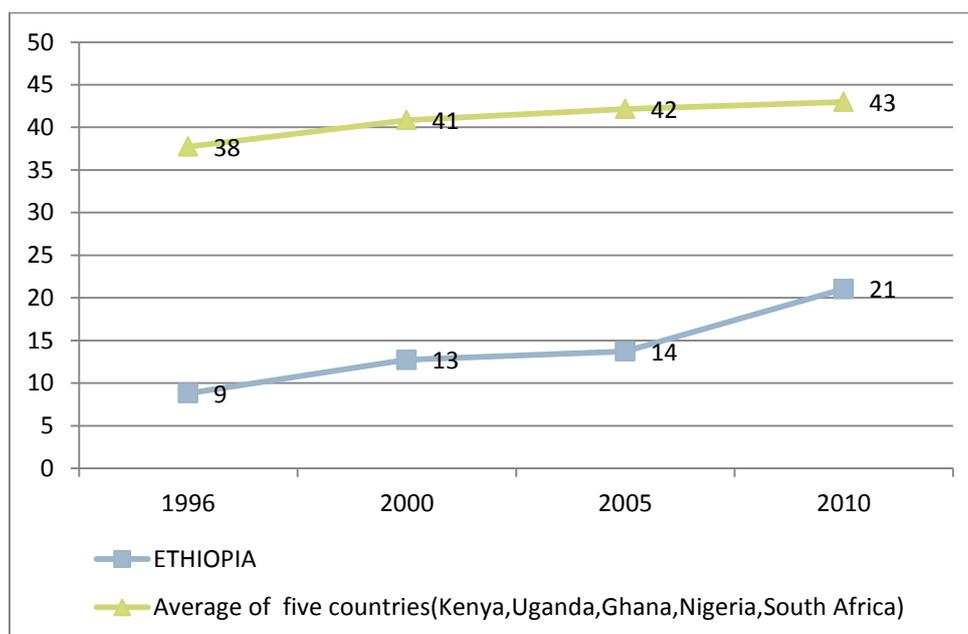
FIGURE 2: ETHIOPIA'S GOVERNANCE EFFECTIVENESS COMPARED TO FIVE OTHER COUNTRIES (1996-2010)



Source: Worldwide Governance Indicator (2011).

76. Ethiopia is a laggard in one aspect of government performance. Namely, regulatory quality, where its performance is considerably below other countries in the region. However, the trends are positive.

FIGURE 3: ETHIOPIA’S REGULATORY QUALITY COMPARED TO THE AVERAGE OF FIVE OTHER COUNTRIES



Source: Worldwide Governance Indicator (2011 update)

4.3 EFFECTIVENESS IN REFORM CONTENT AREAS

77. The next part of the paper deals about the second measurement of effectiveness of the PSR interventions, namely, effectiveness of specific reform areas.

4.3.1 DECENTRALIZATION /FISCAL FEDERALISM

4.3.1.1 FEATURES OF DECENTRALIZATION

78. During the Imperial Regime (1941-1974), strategies and approaches of government structure were characterized by the prevalence of adamant centralization of power, unbalanced regional development, and little participation of citizens. The Imperial Government formed provinces with centrally appointed governors. Local government evolved amid the monarchical political structure for the motive of keeping hereditary rule, central power, and interest in the lower order of government. This allowed for maintenance of law and order, tax collection and security (Daniel Gemechu 1994-1996). During the military regime, 1975-1991, sub-national governments (provinces) were not stable. In a similar way, the military regime gave attention to regionalization using criteria of river boundaries and areas, rather than ethnic identities. Administrators were centrally appointed and not elected. Under the past two regimes, decentralization was, therefore, seen as more of a threat than an opportunity. Regional and local administrations lacked clear power and were complete servants to the regime at the center. Local governments/district levels of administration were mainly concerned with maintenance of law and order and collection of taxes.

79. **First phase of decentralization:** The first phase of decentralization is a politically decided de facto process of forming federalism after long period civil war and ethnic conflict. The proclamations (Proclamation 1/1991) during the Transitional Charter, and after the Constitution of FDRE in 1995, were the legal and policy basis for the formation of federal states, and hence for the implementation

of the first phase of decentralization. During the FDRE (as of 1991), the political, administrative, and fiscal structures were changed following the federal arrangement, which allowed nations, nationalities, and people based National Regional self-governments to manage their own affairs. The constitution of the FDRE (Art.51 and 52) defines the divisions of the powers and functions of the Federal and Regional governments. It reveals the separation of state power, check and balance, transparency, and accountability among different government organs. The Federal constitution is also an umbrella that gives the broader framework for policy formulation. Macroeconomic policies are formulated by the Federal government with the principle of cooperative federalism and creation of one economic and political space across the country. Policies are initiated in tandem with decentralized governments, and through feedbacks from the public, which are then discussed and approved by the constituents.

80. The transition to decentralization started with the regionalization of nine autonomous regional states along ethnic criteria. The proclamation during the transitional period gave details on the division of assignments. At that time, the Regional Affairs Office under the Prime Minister's Office played a leading role in the transference of power and the shaping of regional government structures. Committees selected from different ministerial offices were temporarily assigned to hand over centrally owned projects and programs to the respective regional states. At the time, projects centrally owned by the Imperial and Military regimes were inventoried and transferred to the respective regions. The central government was remotely monitored the projects in the regions. Manpower was also transferred from the federal level ministries to regional level. The federal ministries were temporarily delegated for the operation of a few selected projects and services. In the regions, there were no large number of visible services and projects. After the devolution of power to regional governments, a number of small scale social and economic infrastructure projects including office construction were carried out at the regional level, within a two-year period. With some small exceptions, each of the regional government handled at least 50 developmental projects in the first year compared to a limited number handled by the central government for these areas prior to regionalization.

81. **Second phase of decentralization:** The Federal constitution of 1994 has provision for further decentralization to the lowest units. In article 50 of the FDRE constitution, it is enacted that "adequate powers shall be granted to the lowest units of government to enable the people to participate directly in the administration of such units." The government, especially the EPRDF party, after reviewing the ten-year inroads to local development found it necessary to reorganize and build capacities at a local level. The drive for launching district level decentralization was to substitute the weak administrative capacity at the local level. The regional states also have a responsibility to effectively interact with the citizens at the grassroots level. The regional states have already established hierarchies at the local level. Thus, by regional laws, the district administrative structure was strong, however it was weak compared to the national goals. Districts were thought of as development centers for production, distribution, the exchange of goods and services, and market for labor. These districts were especially viewed as developmental centers for the activism of agricultural and rural development objectives. The move to decentralize power from regional state to *woreda* administrations and make the government closer to the population was seen as a crucial goal by the government.

82. The theoretical and fundamental idea on decentralization/devolution from regional government to local level was not fully captured until the National Capacity Building Program brought it to the forefront in 2002. Fiscal decentralization and decision making power on financial resources was essential to the devolution process. This was backed up by institutional restructuring, development of system, and staffing.

83. Based on the FDRE constitution, each of the regional states promulgated its constitution by taking into account the objective reality of the region; by achieving rapid economic development, enhanced democracy, lasting peace, and security; by refining and strengthening the powers of government organs; by revealing accountability and effective government structure; and by ensuring popular participation at regional district and sub-district levels. The four national regional governments (Regional States) have revised the EFY 1987 regional constitutions in 1994. To this end, Tigray, Amhara, Oromia and SNNP National Regional Governments enacted proclamations No. 45/94, No. 59/94, No. 16/94, and No. 35/94 respectively. The constitutions of regional states give insight for deepening decentralization and recognizing substantial power for the lower level of government. They additionally clarified overall responsibilities, duties and accountabilities at the regional, zonal, and district level.

84. Local level decentralization and good governance is anchored under the PSR. In 2001, the FDRE launched a comprehensive National Capacity Building Program (NCBP). In May 2003, the government of Ethiopia (GoE) announced its intention to rapidly scale up the implementation of its core reform and capacity building interventions under PSCAP. The program constituted the two spatial base reform programs, namely, District Level Decentralization and Urban Management Capacity Building aimed at deepening decentralization, local government empowerment, promoting good governance, grassroots participation in order to improve service delivery and contribute to poverty reduction, and economic development. Most of the design issues of the decentralization reform have been incorporated. As a result of connecting together the top-down and bottom-up policy making and planning practices, it has been possible to link national development goals to the local environment. There were nation and region specific frameworks for overseeing consistent interventions. The implementation was guided by a “learning-by-doing” outlook, and by the development of prototypes.

85. One of the important issues to be raised in relation to the design process of decentralization is as to how far “Big Bang” decentralization is addressing the reform intervention effectively and in a sustainable way. The “Big Bang” approach, despite its advantage, has also brought with it the threat of reverting to recentralization. Sometimes, the local governments are not seen as reliable channels for meeting MDGs. Despite commitments, some of the local level political, fiscal, and administrative implementations of the designed approach are far from being complete. In order to bridge the gaps, the results of decentralization have to be measured and acted upon it. Like many of the developing countries, the criteria and mechanism to measure the impact of decentralization is not well established. The other missing gap and challenging issue is the growing implementation gaps of PSR between the first reforming regions and the emerging regions/the peripheries, as well as the long time delay of implementation.

86. Despite implementation capacity differences among regional states, the “Big Bang” approach to decentralization was not able to fully yield the intended results of effectiveness and sustainability. Capacity is related to exercising autonomy, influencing service delivery, advancing democratization and governance, and effectiveness of downward accountability. Based on the assessments made by USAID (2010), evidence from studies of Ethiopia is perhaps most consistent in regards to the capacity question, which is a discouraging statistic. At the sub-national levels (especially at the *woredas* and below), capacity for critical tasks such as management, planning, administration, and service delivery are constrained by low levels of preparedness among many staff and officials. Lack of financial resources for capital investment and turnover of manpower are the major influencing factors.

Political decentralization

87. In Ethiopia, decentralization has been effective both as a reform agenda and as an instrument for pursuing complementary reforms. The constitution has specified the provisions on the formation of regional states, election rules at hierarchies of administration divisions of powers, and the transfer of financial resources. Furthermore, the constitution has set forward the goal of one economic space with a diverse nation, nationalities, and peoples. The PSR has actively worked with, and sought to consolidate such provisions, institutional arrangements, legal frameworks and policies supporting federalism, decentralization, and public sector reform in key pro-poor sectors.
88. The experience of Ethiopia shows the success of PSR depends on the extent of devolving power or ensuring local autonomy at regional and local levels, and empowering citizens at the grassroots level. The PSR gave priority to capacitating regional institutions and to promoting reforms in *woredas* and urban local governments. Despite the need for further improvement on decision-making, the decentralized regional states have been the major target beneficiaries of the PSR. They have now developed the experience to initiate, adapt, and implement reforms in line with the principle of devolution of power. Additionally, there is an opportunity to strengthen the regional governments and incentivize their performances to carry out reforms. But gaps remain in realizing the advantages of decentralization.
89. Ethiopia's system of decentralization touches all dimensions: political, administrative, and fiscal. The political process gives emphasis to regionalization and devolution of power on ethnic basis. This is differentiated based on nation, nationality and people. Ethiopia's successful emergence from civil conflict and stable management of the ethnic federal system is a critical case to consider (USAID 2012). A leading example is the post-conflict reconstruction of state authority in Ethiopia, since the processes of creation and demarcation of boundaries that have been flexible, albeit politically motivated. The government showed willingness to ally ethnic, geographic, and territorial claims with autonomous governance. This has been extremely limited in Africa, which has many countries fearing that recognition of such claims would further push the country into disintegration.
90. In Ethiopia, the principal form of decentralization is devolution. Devolution is the transfer of substantial political, fiscal, economic, and administrative power to regional states in order to reach the grassroots, which is in accordance to the agreed functional assignments as provided by the constitution of each regional state. The substantial power given to regional states is articulated in various articles. Article 50, No. 8 on structure of Federal and State powers defines that the States shall respect the powers of the Federal Government and that the Federal Government shall likewise respect the powers of the States. However, despite the devolution of power, *woreda* is an echelon of the regional state and functions within this political environment. In this regard, article 47 No. 2 provides that nations, nationalities and peoples within the States the right to establish, at any time, their own states.
91. Local governments are administered by election rule and have council structure. Election is carried out at the urban centers, rural *woredas*, and *kebeles* every five years, subsequent to the national and regional state level of multiparty elections. This is despite the dominance of one party rule throughout the last decades. Mayors for urban cities and administrators for districts are nominated from the constituent/electorate. Electorates are accountable to the people who elect them, as well as to the regional and constitutional law. They have roles on enhancing participation and interactions of the community.
92. Usually inter-party dynamics show that politicians will view decentralization through its likely impact on their own electoral futures. In Ethiopia, the political decentralization and the incentives for initiation and enhancement of decentralization have been dominated by one party. As a result of dominance of a single party, there are no differences in views and interests of the national and sub-

national based parties for enhancing or delaying the implementation of specific dimension of decentralization. Kent Eaton, Kai Kaiser and Paul Smoke (2010) argue that more recent political science literature has begun to explore the logical possibility that the three forms of decentralization do not necessarily need to be adopted at the same time, or in the same measure. The authors further argue that given the institutional incentives faced by national politicians, there are good reasons to expect non-simultaneous approaches. Contrary to this situation, the party structure in the Ethiopian case has allowed the implementing of fiscal, administrative and political decentralization simultaneously.

93. The same study suggest where ethnic cleavages overlap closely with territorial divides, the decision to decentralize is likely to have far more to do with the negotiation of inter-ethnic coalitions than with service delivery, poverty reduction, or administrative efficiency. Ethnic conflict has encouraged politicians to introduce decentralizing measures in such disparate cases of post-conflict negotiation and constitution writing, such as in Afghanistan, Angola, Bosnia, Cyprus, Ethiopia, Iraq, Mozambique, Nigeria, South Africa, Sudan, and Sri Lanka. In the Ethiopian case, regional, ethnic, national, and sub-national based parties support the design and improvement of the decentralization reform as a means to meeting macroeconomic and local needs, rather than for only resolving post conflict ethnic situations. However, sometimes, customary authorities with in regional alliance parties have not taken into account incentives for modern management.

94. The implementation of decentralization and local governance reform is sometime viewed as a short time process and not sustained and scaled up overtime. Some may prefer to maintain the status quo in how they approach decentralization support and collaboration. These people see the approach to be challenging and potentially onerous (Simone Bunse, Verena Fritz, 2012). Many stakeholders have the perception that decentralization reform is completed in Ethiopia. Broader-based and more careful analysis underlying decisions about whether to and how to engage on decentralization reform is worth the effort for development partners and the countries they support.

95. The success with political decentralization is related to political commitments for initiating self-rule and institutionalizing the process, local autonomy, initiation and implementation of decentralization and local governance reforms as well as harmonizing bottom-up and top-down planning.

Administrative decentralization

96. Ethiopia has made advances in institutionalizing and enhancing legal authority for regional level decentralization. The expenditure and revenue assignments of regional governments have been clarified. Powers and responsibilities were provided to the sub-national governments by the Federal constitution, regional constitutions, and the subsequent proclamations.³ Article 52, which is focused on the powers and the functions of States, places regional states at the highest level. It does this so that all powers are not given expressly to the Federal government alone, or concurrently to the Federal Government and the States, and are reserved for the States. Similar but challenging efforts were also made for devolving power to local governments. There was transfer of manpower from regions and zone to *woredas*. Some of the successful undertakings of decentralization include the setting up of institutional structures for basic service delivery and the placement of critical mass (manpower and training, as well as procedures) at local level.

³ For further details refer Annex 2.

97. While administrative authority has been devolved to sub-national levels (de jure and de facto), serious constraints on capacity hinder the achievement of full-fledged decentralization. Administrative decentralization constraints are associated with lack of refined expenditure and revenue assignment at local governments, shortage of skilled manpower and pressing budget for recruitment of the same by local governments, and lack of incentive for critical professional staff especially in remote areas.

Fiscal decentralization

98. The other most important aspect of the reform is the focus on fiscal decentralization along with the growth of political decentralization. The fiscal decentralization strategy of 2004 stipulates on the availability financial transfers, how to narrow fiscal imbalance, and makes the allocations fair efficient and predictable (MOFED, 2004). Regional and local governments have their own assigned revenue. Like any Federal system, the aggregate revenue raising capacity and the aggregate expenditure obligation between levels of governments do not match in Ethiopia. This vertical fiscal imbalance among the tiers of government is huge. The total regional states' own revenue collection would only be able to cover less than 20 percent of their expenditure. Thus, more than 80 percent of the expenditure was covered from the Federal transfer. A *woreda* is allowed to use the revenue that it has collected (being offset from the total entitlement of transfers) in most of the regional states. Even this share of *woreda* revenue can only cover about 30 percent of the federal expenditures. The following table (Table 5) indicates the vertical fiscal imbalances.

TABLE 5: VERTICAL FISCAL IMBALANCE: OWN REVENUE TO GOVERNMENT EXPENDITURE (%)

Tier of Government	Expenditure %				Revenue %			
	2005/06	2006/07	2007/08	Average 2005-08	2005/06	2006/07	2007/08	Average 2005-08
Federal Government	59.7	60.2	56.5	58.8	77.5	79.9	81.6	79.9
Regional Government	15.8	18.2	21.1	18.4	12.4	7.5	6.2	8.3
<i>Woreda</i> Administration	24.5	21.7	22.4	22.9	10.2	12.6	12.3	11.8

Source: MOFED, 2010, Addis Ababa

99. Thus, due to the existence of this imbalance, fiscal transfers are made on explicit formulas agreed on by the House of Federation at the Federal level, as well as by the Regional council at the state level. The formula types deployed range from basic needs/expenditure needs approach (1995-2006) to a per capita approach that is relatively based on expenditure need and fiscal capacity formula (2007 -2012). These formulas have narrowed the per capita allocation among regions, but at the same time favored the emerging regional governments.

100. The transfer has been reinforced by significant fiscal decentralization and decentralized resource management to sub-national levels of government and has also shown a positive trend in the size and predictability of financial flows from federal government to regional government and from regional government to *woreda* levels of administration. A general purpose grant transfer from the federal government to regions between the periods of 2005-2012 has increased by an annual average of 28.8 percent in nominal terms. The average annual increment in real terms (taking 2005 as a base year) is 9.2 percent. Although the absolute increment of the regional pool is increasing, its

relative position in terms of the overall national budget is decreasing because of the growing demand for large infrastructure at the Federal level that requires large investments. For instance, the transfer pool to regional states was 9.9 billion EBr out of the national budget of 35.4 billion in 2006/7 (38.6 percent). This increased to 45.4 billion EBr out of the pool of 117.8 billion in 2011/12 (27.9. percent).

101. The comparison of fiscal decentralization and expenditure assignment in 12 African countries showed that the percentage of sub-national governments expenditure to national expenditure is high for Ethiopia, Nigeria, South Africa, and Uganda (USAID, 2010). This provided the basis for fiscal autonomy. Other data revealed that the share of budget to *woredas* has increased from year to year (World Bank, AFTH3, 2006). Regional governments' on the average transferred more than 60 percent of the grant received from the Federal government to their respective local governments. The transfer has narrowed fiscal imbalances overtime. Table 6 below depicts the percentage of transfer between 2003 and 2011.

TABLE 6: PERCENTAGE SHARE OF FISCAL TRANSFERS TO LOCALITIES IN TWO REGIONAL GOVERNMENTS

Regional state	2003		2005		2011	
	Budget in Million EBr	%	Budget in Million EBr	%	Budget in Million EBr	%
Oromiya Regional State						
<i>Woredas</i>	1,045	46.1%	1384	51.1%	5,221	62.9%
Regional Bureau	1,219	53.8%	1323	47.0%	3,071.2	47.0%
Total budget	2,264	100%	2707	100%	8,292.2	100%
SNNP Regional State						
<i>Woredas</i>	901	72.7%	931	64.0%	3540	61.0%
Regional Bureau	338	27.2%	583	36.0%	1,542.6	39.0%
Total budget	1,239	100%	1514	100%	5082.6	100%

Source: MOFED and World Bank, AFTH3, 2006. Ethiopia enhancing human development outcomes through decentralized service delivery, Human development department, Africa region

102. The existence of mandated intergovernmental fiscal transfer to finance capacity building implies a considerable autonomy to the sub-national governments. Almost 80 percent of the resource is allocated to capacity building needs of the sub-national government compared to the 20 percent allocated to the capacity building needs of the federal executives agencies. However, given the existing revenue assignment structures and low level of local revenue, there has not been sustainable and reliable means of financing local governments other than providing adequate specific purpose grants for development or PSR/capacity building. In Tanzania for instance, Capacity Building Grants (CBG) are provided under the Local Government Reform Program to local government authorities with minimum conditions, such as presenting acceptable capacity building plans and accounting satisfactorily for previous disbursements. The local government authorities use the CBG to fund a wide variety of activities, such as the "eleven standardized courses," prioritized on-the-job trainings, technical assistance, and the study of other government authorities' best practices and working tools. A minimum of 40 percent of the grant is used at a sub-district level. Similar examples exist in Uganda, India, and Mexico. In Australia and Canada, apart from financing essential elements of national development programs, specific purpose grants are provided to equalize public expenditures in localities with differing needs and capacities; to stimulate local fiscal efforts; and as a technical assistance to permit them develop plans, manage and operate facilities in the most efficient way.

4.3.1.2 ANALYSIS OF THE EFFECT AND OUTCOMES OF DECENTRALIZATION

103. Ethiopia's system of decentralization touches all dimensions of decentralization: political, administrative, and fiscal decentralization simultaneously, which is contrary to the situation in other countries. The first phase of decentralization is a politically decided de facto process for federalism after long term civil war and ethnic conflict. The second phase of decentralization further to the lowest units was "Big Bang" which was backed up by wide range activities of institutional restructuring, development of system and staffing. The "Big Bang" approach, however, brought gaps on addressing the reform in a sustainable way. This was expressed by low levels of capacity pressure put on service delivery. Furthermore, the implementation gap of PSR between the first reforming regions and the emerging regions/the peripheries is growing and has not been narrowed.

a) Political efficiency of decentralization:

104. Political autonomy is explained in terms of the application of multiparty election rules, existence of elected structural body, participation of the grassroots in political decision making, and the devolution of decision making power specifically fiscal autonomy. Among others, political decentralization efficiency indicates improvements in the autonomy, voicing, and disparities. It considers subjectively issues such as: the fulfillment of constitutional or statutory reforms, the degree of citizens or their electorates power in decision-making, the level of democratization that influences the formulation and implementation of policies, the extent of informed decision making by diverse interests in society rather than those made only by national political authorities, and the creation of local political units. This is in addition to the adoption of politically motivated transfers as part of the intergovernmental relations.

105. With regard to political decentralization, Ethiopia successfully emerged from civil conflict and unstable management of the ethnic system to the processes of creation and demarcation of boundaries that have been flexible, albeit politically motivated. Ethiopia was an example of the post-conflict reconstruction of state authority. Local governments are administered by election rule and have council structure despite the dominance of one party rule throughout the last decades. As a result of dominance of a one party system, there are no differences of interests in the national and sub-national based party structures.

106. Political decentralization is affected by the behavior of political parties. Some consider ethnic difference as a threat and a few others, like Ethiopia, as an opportunity to reverse conflict. In Ethiopia, the ethnic differences at a regional government level have witnessed self-rule and created unity with diversity than leading to fragmentation. The differences have not been highly signaled at local government level.

107. On the other hand, a principal political decentralization constraining factor in Ethiopia is the predominance of a single dominant party, which enables a degree of continued central government control over sub-national elected officials. Authority is well established de jure for local governments, but insufficient alone to ensure successful decentralization, as it can be undermined de facto through the party system. The centralization of power in the dominant party suggests that party discipline and top-down management can substitute upward accountability for the desired downward accountability of sub-national officials and civil servants to the citizens.

108. Decentralizing political accountability, devolving adequate power and empowering citizens are important facets of political decentralization. The system of decentralization in Ethiopia has brought important political consequences and implications, as it has increased local participation in political decision-making, which again brought social benefits. Also it was able to promote democracy for electorates at large as they have been better informed and discuss on the choices offered or on locally generated ideas. However, local governments are fiscally constrained due to lack of own-

source revenues (weak tax bases), which constrains local governments in their ability to set their own capital spending priorities and exercise their autonomy, as well as intergovernmental transfers (block grants) that are linked to recurring costs.

b) Economic efficiency of decentralization:

109. The economic efficiency of decentralization is classified and interpreted both as allocative efficiency and productive efficiency. The allocative efficiency analyzes how satisfied citizens are with the allocation of mix of goods and services. Production efficiency also looks at the reduction of cost of production of a given service or product. The allocative efficiency is achieved partly by establishing local government institutional structures for basic service delivery. Local governments are able to manage the administrative functions of the five basic service delivery functions in at least 21 sector offices per *woreda*, compared to the limited structures and functions prior to decentralization. Despite the overall limitations, the capacity of leaders to prepare strategic plan and utilize budget to selected basic service delivery outcomes indicate promising trends.
110. One way of measuring the reduction of cost is to examine the positive relationships of institutional capacity to the outcomes of service delivery. The allocative efficiency (expressed as citizens' satisfaction from the allocation of mix of goods and services) as a result of devolving expenditure assignments and setting up local government institutional structures for basic service delivery, has been a good example to look at. As a result of deepening the decentralization process in 2001-02, district administrations and selected major city governments (133 jurisdictions) in regional governments have now established an improved local government structure that enabled them to better exercise their powers and to carry out their missions to a higher quality. The WCBS survey indicated the highest satisfaction of people is from the allocation of mix of basic public services. It is clear that decentralization has benefited the allocative efficiency, as the local governments are able to manage the administrative functions of the five basic service delivery and related functions in at least 21 sector offices, as compared to limited structures and functions prior to decentralization. At the initial phase, the cost of decentralization was high for a "Big Push" approach, as capacity building measures were not taken concurrent to the assignment of responsibilities. Efficiency is later gained as local governments carry out services with less economies of scale that could be accomplished. This is in addition to small scale, labor intensive and mobilized activities such as primary education, primary health care, and agricultural extension.
111. As a result, the production efficiency of decentralization has also been largely attained. The comparison of service delivery before and after decentralization shows that the coverage of service delivery has improved although quality provision still remains a challenge. Ethiopia has advanced to achieve the major MDGS indicators in service delivery. The devolution of power and resources from the federal and regional government to *woreda* has improved the delivery of basic services. Improvements took place in a short period during the massive decentralization of fiscal resources, to regional governments in 1994 and then to *woredas* in 2002-03. The analysis of increased service coverage and spending made after decentralization in the country is endorsed by the high satisfactions of perception of beneficiaries. The effect of decentralization on service delivery can be examined by considering the progress of MDG targets and related performances. The following table (Table 7) shows the attribution of decentralization to the significant improvement of education and health services, and the moderate improvement of water services. This is verified by comparing the level of the services when the local devolution was just started in 2002, when the major PSR activities started in 2005, and the current achievements in 2011.

TABLE 7: SERVICE COVERAGE BEFORE AND AFTER DECENTRALIZATION

Service	2002	2005	2011
Net Primary School Enrollment	52.2 %	68.5%	85.3%
Safe Drinking Water Coverage	28.4%	35%	73.3%
Under Five Mortality Rate	167/1000	123/1000	88/1000
Potential Health service coverage	61%	76.9 %	92.1%
Average distance to reach an all-weather road, in hours	7.0	4.5	3.5

Source: UNDP, Ethiopia –MDG Progress Report

112. Net primary school enrollment has increased from 52.2 percent (before decentralization) to 85.3 percent after a decade. Safe drinking water coverage within a 1.5 km radius increased moderately from 28.4 percent to 73.3 percent in the same years. Additionally, the number of defective water supplies decreased from 30 percent in 2005 to 20 percent in 2011. Under Five Mortality Rate was reduced to 88/1000 population in 2011 from 167/1000 population in 2002. The number of Health Extension Workers (HEW), which was 2,737 in 2003, increased to 24,571 in 2008 (PBS PAD II, 2009) thereby increasing the ratios of health workers per population. About 82 percent of the targeted primary health care extension workers have been trained for additional one-year course and deployed. The average distance to reach an all-weather road decreased to 3.5 hours in 2011 from seven hours in 2002, as indicated in the Ethiopian Country Self-Assessment Report of the African Peer Review Mechanism (APRM in 2009) as well as JRIS of PBS Program, Phase II (2011). Road density increased from 22km/1000 square km in 1996 to 40.3 km /1000 square km by the end of 2008 whereas the Sub-Saharan Africa average is estimated at 54 km/1000 square kilometer. The proportion of roads in good condition increased from 18 percent in 1995 to 73 percent by the end of 2008. Accelerated investments in road network reduced the number of underserved areas and improved the accessibility of rural roads. The number of Agricultural Development Agents, which was 9,434 in 2003, increased to 49,435 in 2007; the number on the ground has more than doubled from 20,000 in 2005 to 55,500 in 2011; and similarly the number of households that received agricultural extension services has increased rapidly over the past few years, from 5 million in 2007 to 8.85 million in 2011.

113. Regarding the approach and link to the PSR, the Ethiopian decentralization reform has been effective both as a reform agenda and as an instrument for motivating and guiding complementary reforms. The PSR has actively worked with and sought to consolidate institutional arrangements, legal frameworks, and policies supporting federalism and decentralization. This was reinforced by significant fiscal decentralization and decentralized resource management to sub-national levels of government.

114. Experience shows that the success of PSR depends on the extent to which power is devolved to regional and local levels, and how much the citizens are empowered at the grassroots level. The Ethiopian approach to PSR gave priority to capacitate reform-leading regional institutions and to promote reforms at districts and ULGs. The decentralized regional states have been the major target beneficiaries of the PSR. After relying on federal counterpart institutions in the initial reform period, the regions have now developed the experience to initiate, adapt, and implement reforms. In line with the principle of devolution of power, there is an opportunity to strengthen regional governments and incentivize their performances to carry out reforms. However, there are still gaps in realizing the advantages of decentralization. The implementation of decentralization and local governance reform is sometime viewed as a short time process but has to be sustained and scaled up overtime.

4.3.2 BUDGET IMPLEMENTATION AND EXPENDITURE MANAGEMENT

115. The public sector and financial management reform have been on-going through the Expenditure Management Control sub-program (EMCP) of the Public Sector Capacity Building Program (PSCAP), PBS, and other donor support. Although specific processes had been underway to strengthen the accounting and financial information systems by the Decentralization Support Project (DSA) of USAID and other donors, it has been fully implemented and scaled up by PSCAP and PBS. The sub program has been in operational by MOFED and its allied agencies.

The reform has concentrated on the overall operations of budget preparation, revenue administration, budget and accounts execution, internal and external controls, procurement, cash management, accounting and reporting, and legislative overseeing. The major strategic outcomes, which have been given due attention, include: in revenue and expenditure management, strengthening human resource capacity, governance through greater transparency, and accountability. In these regards, it has been possible to scale up legislations, working systems (supported with IT at its preliminary stage), and structures and human resource needs, while activities surrounding integrated financial management information and reporting is at its initial stage. In hindsight, the expenditure management achieved better results in areas where there was a strong, receptive and sustained demand and capacity for support, Progress is harder in areas where either the capacity or financial support were inadequate (e.g. IFMIS).

116. **Predictability and budget outturn:** The preparation of medium term plan framework, the fiscal calendar and strategic plans contributed to the predictability and administration of budget and pro-poor spending across the level of government. Lately, program budgeting manual was finalized, piloted, and implemented at the federal level. Public Expenditure and Financial Accountability (PEFA) assessments done in 2007 and 2010 have showed improvement in 14 of the 28 indicators. Accordingly, predictability and control of public expenditure improved at the federal level, but was less evident at the sub-national level between 2008 and 2010.

117. At the federal level, the deviation between budget and budget outturn was low: the implementation was more than 90 percent on average for three years. However, for all regions, budget utilization rate was relatively low at 82 percent for capital and 98 percent for recurrent on the average (see Table 8). Accordingly the budget utilization, as per the WCBS 2008 survey, indicates that the number of jurisdictions that closely match their planned and actual expenditure increased from 55 percent in 2005 to 66 percent in 2011.

TABLE 8: BUDGET UTILIZATION RATE (%)

Level of Government/Expenditure type	2009	2010	2011
Federal Government			
Recurrent expenditures	93.1	94.2	92.0
Capital expenditure	98.7	96.5	88.6
Regional states			
Recurrent expenditures	100	100	95.6
Capital expenditures	98.0	77.0	69.6

Source: MOFED, JBAR 2012 and PEFA assessment report 2010, Addis Ababa

118. **Legal and policy framework:** Significant changes in grafting legislative and policy frameworks have enabled the public finance to be administrated comprehensively. New and revised proclamations, directives, and guidelines have been issued and rolled out or adapted in all regional governments. Extensive training was provided to the staff of federal and regional finance public agencies on all rules, regulations, directives, and reforms.
119. **Budgeting and accounting systems:** A uniform and simplified budget design manual with a new cost-centered budget structure has been put in place along with the initial budget information system. As part of the accounts reform, double-entry bookkeeping has been introduced, new ledger cards were created for use by accountants, clearly defining the use of expense accounts. According to the Fiduciary Assessment (FA) for Ethiopia (in 2002), a new chart of accounts was commenced at federal level and in five of the eleven regions. Double entry bookkeeping and single pool/treasury accounting systems were also commenced in nine of the eleven regions (MOFED and DIFID, EU funded task team, 2004). As a result of the placement of the systems and improvements, the backlog in the consolidation of accounts and audited accounts has been reduced. In 2003, there was a two-year account backlog and in at most 60 percent of the public institutions that were not able to submit their accounts, with acute problems in emerging regional governments. In 2007, the backlog had been eliminated. As a result, the quality and timeliness of budget preparation and accounting, as well as the accuracy and timeliness of financial reports have significantly improved. The reform has brought prudent budget system, standard reporting and cleared backlogs of accounts and the audited accounts (by more than 50 percent).
120. **Cash Management:** A cash management directive was implemented at all levels—federal, regional, zonal, as well as all *woredas*. The directive facilitated the identification and closure of many inactive and unnecessary bank accounts; introduced a zero-balance system based on cash flow and drawing limits; and introduced key cash flow sheets, disbursement, and approval forms. As a result, an accurate and reliable cash management and control system has been established.
121. **Financial information system:** The task of updating the financial information system for efficiency of operation and transparency began with Budget Information System (BIS) and Budget Disbursement and Accounts (BDA). Later, Integrated Budget and Expenditure Management System (IBEX) replaced both the BIS and BDA systems. IBEX has been implemented in federal institutions and regions, and was supported by PSCAP until 2009. In terms of the large scale Integrated Financial Management and Information System (IFMIS), there was a challenge due to lack of minimum condition for success, such as a lack of strong institutional capacity, the availability of private sector IT infrastructure, and the need for the revision of accounts and other transitional arrangements from bespoke IBEX system. The World Bank reports on the practice of IFMIS installation suggest that success rate in Africa is less than ten percent (MOFED and DIFID, EU funded task team, 2004).
122. Another area of support has been ensuring financial transparency and accountability. CSRP, DLDP, and the good governance package under PSCAP created procedures, established structures, and introduced a number of templates. These templates are for service delivery, complaint handling, notification, and receipt of public contributions, which improve information disclosure to the public. Under PBS, Financial Transparency and Accountability Perception (FTAP) tools such as a laypersons budget template, a budget and expenditure template, and a service delivery template were implemented at federal and regional levels. These contributed to improvement of public awareness of budgets (MOFED, 2011). According to reviews and surveys carried out at different periods, more than 90 percent of the *woredas* post their budgets, and in a number of cases they post and report expenditure for the public. This has created the potential for citizen awareness and feedback on budgetary allocation and utilization.

123. **Procurement system:** Since more than 65 percent of the country's annual budget, which is currently over US\$5 billion, is spent through procurement, the government of Ethiopia believes that an effective functioning of public resource management system in the areas of procurement and financial management is important and central for the success of the GTP (MOFED, 2010). The reform supported the procurement administration and management system. The Procurement Act and directive were issued in 2005, and all regions adopted them. The Ethiopian Government enacted a new Public Procurement Proclamation in 2005, issuing a revised procurement directive. With this, a Public Procurement Agency (PPA) was established. The law has increased the level of accountability and control for public resources in public organizations.
124. **External scrutiny and audit:** PBS channel aid funds through the Federal Block Grant (FBG); the regions and *woredas* have discretion in allocating their block grant, but the allocation decision is linked to common national strategies and targets and financial management systems, which differ among regions only in detail (Delegation of the European Union to Ethiopia, 2012). The system monitors the implementation of agreed targets in five basic service delivery sectors. Similarly, the federal government has the right to audit the FBG, as well as any donor funds. In 2010, the scope of audits performed by the Office of the Federal Auditor General (OFAG) remained at about 50 percent of the total expenditure, but audited financial statements are presented timely to the Parliament (MOFED A Repeat Assessment, 2010). The relationship and areas of cooperation or information exchange between the Federal and Regional Auditor General remains unclear. Overall performance has improved between 2007 and 2010. The parliamentary scrutiny of the budget had not improved in 2010 when compared to the 2007 level. As far as the integrity of fiscal information is concerned there is no change in performance to be observed between 2007 and 2010. The trajectory change is low on external scrutiny and follows up on external audit reports and legislative scrutiny of the annual budget. However, improvements are needed on predictability in the availability of funds for commitment of expenditures and public access to key fiscal information.
125. The reform objectives have been partially achieved in the areas that operate well with the related capacity building mechanisms in place (although the degree to which it is in place varies). The assessment of the past showed that reform supports were fragmented and not timely. An integrated capacity building approach to the public financial management initiatives and sustainability of implementations are important for the success. The need to improve performances and bring more efficient operation, budget utilization in the sectors which require institutionalizing of the working systems, incentives, training of manpower in reform areas, replacing manual paper work of the financial management system with IT and ensuring its continued maintenance, and investing in more financial resources. Some areas of activity that have been given emphasis are: the introduction and rollout the IFMIS project countrywide, the connection of all public bodies with WoredaNet, and the establishment of LAN within the public bodies. This is in addition to IT supports, internal control, and performance budgeting and procurement. One of the challenges recognized by the government includes enhancing the budget process based on policies (programming/ performance budgeting framework). This linkage between public expenditure and policy objectives, strategies and the budget process will make the budget more efficient and strengthen transparency and accountability (MOFED a repeat assessment, 2010). More refined work is needed to link the program budgeting exercise to the GTP, medium term expenditure framework, BPR, and BSC. Expenditure management and control reform have also shown potential to cover major activities on fiscal decentralization, local governance, and accountability. Some of the major activities have not been rolled out at sub-national government levels. The efficiency of the financial management pool arrangement system in delivery of service at the local level has to be assessed for further support.

4.3.3 REVENUE GENERATION

126. The comprehensive tax and customs reform was implemented since early 2000s and included: 1) The enacting of a number of tax proclamations and directives that overhauled the tax system legal and policy framework; this includes the income tax, turn-over tax, agricultural income tax, VAT, presumptive taxation, and a number of other taxes. 2) The restructuring of the revenue bodies at federal and regional levels. 3) The overhauling of the tax assessment, collection, audit, and administration manuals. 4) The using of better technology was introduced or strengthened, such as the introduction of standard integrated government tax administration system (SIGTAS), Biometric Technologies for tax payer information registration, and systems such as enforcing the use of cash registers IT-assisted systems. The SIGTAS was operational only at federal level in 2005. The system has now been rolled out to all regions for VAT purpose. Regions are also at different levels in adopting the system for all types of taxes. The automation for customs through the adoption of ASYCUDA++ automated 28 sites across the nation to provide import/export information for customs duty and tax assessment. 5) The extensive and continuous taxpayer education.
127. Significant progress has been made to overhaul the tax system and strengthen the operational capacity of the Ethiopian Revenue and Customs Authority (ERCA), as a result of PSCAP support. The reform of the tax administration has benefited from synergies and spillovers from reforms undertaken in other areas of government, such as civil service reform. Significant efforts have been made to strengthen and make operational Human Resource Management (HRM) rules and regulations. Revenue management and organizational technical support were provided to the Revenue Authority. Restructuring and performance improvements were implemented through Business Process Reengineering (BPR) at federal, regional, and *woreda* offices. This BPR exercise has been instrumental in changing public service culture and introducing concepts such as performance, customer orientation, accountability, and good governance. The BPR brought about organizational transformation by merging the three federal tax and customs related organizations in 2008, creating a unitary organization with the ERCA. Regional tax administration offices were also separately organized to incorporate nationally similar functions.
128. The expected impact on institutional quality, with regard to the Tax System Reform component, is enhanced revenue performance and fiscal autonomy. It is expected that this component contributes to increased tax effort at all levels, to increased own revenues, and to unconditional transfers as a share of total expenditures at a sub-national levels.
129. Nationwide tax collection increased five times, from EBr.12.4 billion in 2005 to EBr.58.9 billion in 2011. Federal tax revenues increased an impressive 263 percent in nominal terms between FY 2010/11 and FY 2007/08. Tax collection nationwide doubled in real terms between 2005 and 2011 (although the increase in nominal terms was 4.4 times). Within the same years, the annual average increment of revenue collection was 10.3 percent in real terms. Federal and regional revenue bureaus have exceeded their annual collection targets. As a result, the coverage of recurrent expenditure through domestic revenue source grew. The percentage share of government domestic revenue to recurrent expenditure reached to 108.2 percent in 2011.
130. The success of the GTP depends on mobilizing local revenues and reforms. This will, however, require a significant increase in revenue per capita and revenue as a share of GDP. Ethiopia's tax-to-GDP ratio (around 12.43 in FY 2010/11) does not fare well with those of other sub-Saharan African countries. According to International Monetary Fund, World Economic, and Financial Surveys for Sub-Saharan Africa (2011), Ethiopia's government revenue (excluding grants), as a percentage of GDP, was 13.6 percent in 2011. This is lower than the comparators for Sub-Saharan Africa (26.0 percent), low-income countries (17.1 percent), and middle-income countries (28.5 percent). In the case of Ethiopia, a lower tax-to-GDP ratio, as compared to its neighboring countries may reflect a lightly taxed agricultural sector that account for a big chunk of the GDP. Some estimates indicate

that revenue relative to non-agricultural GDP could be close to 20 percent. As a result, an analysis of contribution to revenue of different sectors is required. In light of this, it is recommended to have detailed estimates of the tax compliance gap in Ethiopia in order to know the real potential of its tax system to generate revenue. The following table (Table 9) depicts the contribution of revenue and the ratio of the wage bill to GDP.

TABLE 9: PERCENTAGE SHARE OF GOVERNMENT DOMESTIC REVENUE TO GDP AND TO RECURRENT EXPENDITURE

Description	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP at Current Market Prices in Billion Birr	73.4	86.7	106.5	131.6	172.0	248.3	335.4	382.9	511.2
Government domestic revenue in Billion Birr	11.1	13.9	15.6	19.5	21.8	29.8	40.2	53.9	69.1
Recurrent expenditure in Billion Birr	13.5	12.0	13.4	15.3	17.2	22.8	27.2	32.5	40.5
Total (federal + regional) wage bill in Billion Birr	5.4	5.5	7.1	8.5	9.7	13.6	15.8	17.7	23.3
Percent share of recurrent expenditure to government domestic revenue	121.6%	86.3%	85.9%	78.5%	78.9%	76.5%	67.7%	60.3%	58.6%
Percent share of government domestic revenue to GDP	15.2%	16.1%	14.6%	14.8%	12.7%	12.0%	12.0%	14.1%	13.5%
wage bill to GDP ratio (in percent)	7.4%	6.3%	6.7%	6.5%	5.6%	5.5%	4.7%	4.6%	4.6%

Source: MOFED, 2012. Addis Ababa

4.3.4 HUMAN RESOURCE MANAGEMENT, WAGES AND INCENTIVES

131. The attitude of civil servants has changed over time and they (and their leadership) show signs of efficiency, responsiveness and accountability. These changes are significant and reflect the political priority attached to a stronger performance oriented management culture in government. However, a critical factors that affect the productivity of civil servants, the retention of the existing skilled and experienced staff, and the attraction of new talent includes are such considerations as basic pay, performance pay, and turnover. These have not been examined and effectively answered. Recently, the MoCS has drafted an incentive guideline and submitted for approval to the Council of Ministers. This initiation by the government could respond to and benefit from some of the issues discussed below.

132. The total staff turnover rate for the public service in Ethiopia is 1.2 percent, which seems low compared to other Sub-Saharan countries' rates that are between 2.0 percent to 2.2 percent. However, when the turnover rate is disaggregated by level of government, the 4.4 percent rate at

the federal level is quite high and should be of a concern to policy makers (see Table 10). It is quite difficult to develop capacity and sustain performance gains in any organization with such a high staff turnover.

TABLE 10: CIVIL SERVANT STATISTICS BY LEVEL OF GOVERNMENT, 2010

Category	Federal civil service	Regional states/city administrations civil service	Total
Total number of staff	69,662	801,738	871,400
Total number of resignations	2,865	7,615	10,480
Staff turnover rate	4.1%	1.0%	1.2%

Source: Ministry of Civil Service, Human Resource Statistics, 2010.

133. Since 1996, the government has practiced nominal pay restraint in pursuit of a low pay scale for civil servants. Nominal pay has only been adjusted occasionally, when some event such as inflation drastically eroded real pay in the public sector. The government's response on such occasions was reactive rather than proactive by awarding adjustments in nominal pay in the public sector, only to have inflation erode real pay further. At present, in 2012, the minimum nominal salary is EBr.420 per month (equivalent to the US\$24 at the exchange rate on May 2012 stated in this document) and the maximum is EBr.4343 (US\$247) for a Professional Science (PS) staff member. This is low compared to other developing countries. The country has more than 800,000 civil servants and a large proportion of them (about 60 percent) get less than EBr.1000 (US\$56.8) per month.

134. At similar grades, the nominal salary of NGOs, the private sector and donor agencies in Ethiopia is much higher than the payment in public service institutions. For instance, a senior secretary (in Ethiopian civil service scale) gets two to three times less than a similar secretary in the NGOs or private sector, and 11 times less than one in a donor agency (see Table 11).

Table 11: Comparison between Ethiopian civil service pay and other institutions

Institution	Senior/executive secretary remuneration per annum (EBr.)	Ratio to Ethiopian civil service
Ethiopia civil service salary	19,404	1:1
UN Ethiopia country office	210,033	1:11
NGO - CRDA Ethiopia	49,390	1:3
Private service providers	36,000	1:2

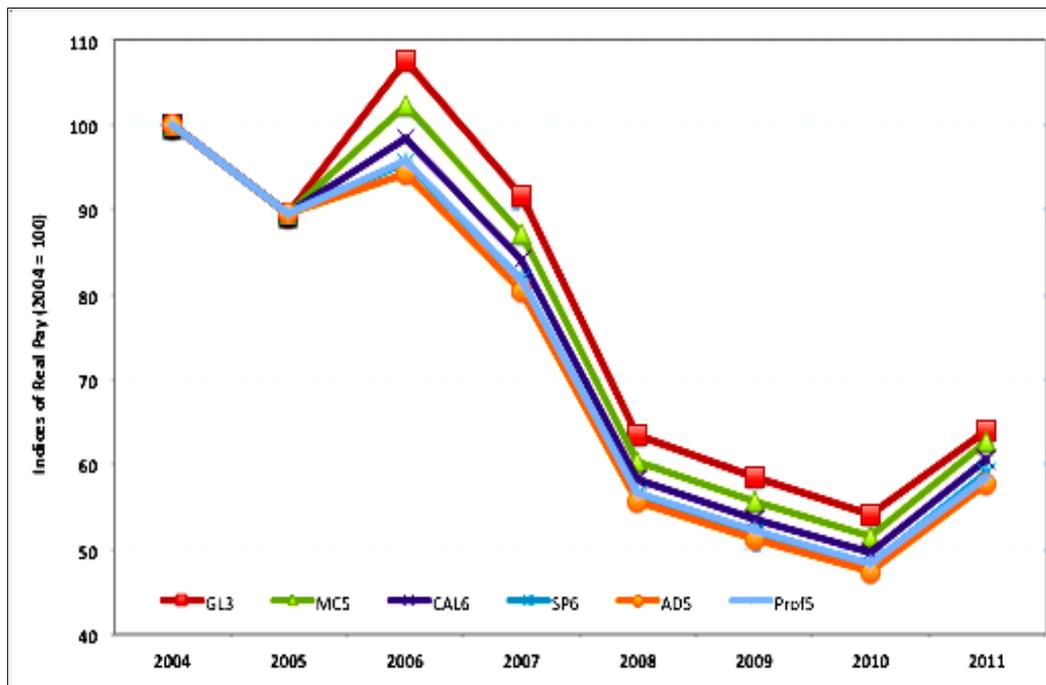
Source: Data collected, Ministry of Civil Service, UN Ethiopian Country Office, CRDA, Sheraton Hotel, 2012

135. Between 1996 and 2011, real average pay in the Ethiopian public sector declined continuously and drastically. Basic pay was adjusted by 20 percent on average in 2002 and by an average of 38 percent in 2004, 2006 and 2011. At best, the adjustments in pay have only partially compensated public servants for the loss of purchasing power. As a result, over the period, real average monetary

compensation in the public service declined. Before the most recent salary adjustments in January 2011, real pay for all salary groups had declined to about half of their 2004 level. Even with the salary adjustment in 2011 (nominal pay increase ranging between 36 percent and 40 percent), real public service salary still remains at only about 60 percent of its 2004 level. This has impact on productivity, turnover, retention, and recruitment of manpower. Ethiopian public sector pay structure, pay practices, and incentives and financing situation are not yet improved to sustain the productivity and availability of manpower. Therefore, nominal pay in the Ethiopian public sector is quite low. Nominal wage increases have not kept the purchasing power of government employees constant due to inflation. According to the Economic Update Report (2012), inflation reached a high of 33 percent in 2011 and slightly declined to 20.2 percent in August 2012. In 2010, food consumer prices had already experienced higher growth rates than in several African countries and this gap has further widened since the beginning of 2011.

136. While real pay for all groups has declined, the salary adjustment practices tend to be more favorable to groups in the lower salary grades, and least favorable to those in the middle salary grades (SP6 and AD6). In 2011, the government preferred to give high increments to the higher pay scales and lower increments to the lower pay scales, due to the high cost of increments for the latter. Figure 4 shows the trends in real average salaries for job classifications in the civil service from 2004 to 2011. In general, the adjustment practices are likely to compress the pay structure; in particular, the structure is likely to be even more compressed between the bottom and middle of the salary structure.

FIGURE 4: INDICES OF REAL SALARIES FOR SIX JOB CLASSIFICATIONS IN THE ETHIOPIAN CIVIL SERVICE, 2004 – 2011 (2004 = 100)



SOURCE: CALCULATED, HUMAN RESOURCE STATISTICS, MINISTRY OF CIVIL SERVICE, 2010

Notes:

In the figure above, the trend of the indices of real salaries is shown for six major profession jobs and levels 5 or 6 namely GL3, MC5 (Manual and Custodial), CAL6, SP6 (Sub Professional), ADS (Administrative Science), and ProfS (Professional Science). Classifications of jobs in the Ethiopian system are known as Professional Science (PS), Administrative (AD), Sub Professional (SP), Clerical and Fiscal (CF), Trades and Crafts (TC), Custodial and Manual (CM), as well as classifications related to Teachers, Health Professionals, Appointment, Special Classification, and category for those not stated.

137. While the size of the civil servant is increasing the overall government wage bill, as a ratio GDP is low because of the decline in real salary levels. Additionally, because Ethiopia spends a relatively high share of expenditure on capital investment, the wage bill as a percentage of recurrent expenditure is high (PSCAP, Theodore R. Valentine, 2012). Given the government's limited fiscal space and the wage bill implications of implementing various capacity enhancing measures, tradeoffs will emerge between implicit pay policy objectives and capacity building in the short to medium term. The wage bill to GDP ratio significantly declined from 7.4 percent in 2002/03 to 4.6 percent in 2010/11 indicating the lowest ratio in sub-Sahara Africa, while high growth in the public service employment. The major determinant of the size and growth of the wage bill in Ethiopia has been the growth of employment in the civil service.

TABLE 12: CIVIL SERVICE EMPLOYMENT GROWTH RATE IN THE PUBLIC SECTOR IN FEDERAL AND REGIONAL GOVERNMENTS

Year	Federal Government	% growth rate	Regional Government	% growth rate	Total	% growth rate
2004	49,419		354,668		404,087	
2005	51,764	4.75%	378,533	6.73%	430,297	6.49%
2006	60,038	15.98%	438,767	15.91%	498,805	15.92%
2007	60,911	1.45%	489,398	11.54%	550,309	10.33%
2008	60,758	-0.25%	571,721	16.82%	632,479	14.93%
2009	63,027	3.73%	731,398	27.93%	794,425	25.60%
2010	69,662	10.53%	801,738	9.62%	871,400	9.69%

Source: MoCS, Human Resource statistics, Addis Ababa, Ethiopia, 2010

138. The Wage Bill to Gross Domestic Revenue ratio for three comparator countries is nearly at or above 50 percent (Zambia at 52.2 percent, Ghana at 49.8 percent, and Mozambique at 49.7 percent) and quite high by international or sub-Sahara Africa standards. It implies that about half of all domestic revenue collections go towards the payment of public sector wages and the remainder for operation and maintenance and development expenditures. The Gambia's Wage Bill to Gross Domestic Revenue ratio (at 30.5 percent) is in the lower level range of the comparator countries. At 39.2 percent, Ethiopia's Wage Bill to Gross Domestic Revenue ratio is among the upper middle level range of the comparator countries. The Ethiopian experience shows that while the wage to GDP ratio is generally in the upper middle range and low, the wage bill as a percentage of recurrent expenditure is high due to increased need of manpower for meeting development needs. Public service employment has increased substantially and at a sustained rate of average 5.6 percent per annum on average since the 1960s. Between fiscal year 2004 and 2010 the average annual employment growth rate actual accelerated, reaching 13.8 percent per annum. This reflects the implicit pay policy of the government to trade increased real wages for higher levels of employment. Ensuring that the remuneration package is sufficient to cover the basic needs of civil servants and that it provides sufficient compensation to attract and retain competent and efficient civil servants will limit the rate of growth in civil service employment.

139. External financing earmarked for sub-national governments have spurred employment growth at those levels of government. An emerging concern is the continuous increase in civil service recruitment using PBS support at the *woreda* level. Since PBS finance is used for recurrent expenditure, the government will need to find a way to finance these increased costs when PBS comes to an end. This problem of the sustainability of current levels of employment adds to the

concerns identified earlier about the trends in real wages in government. Pay enhancement in the public service is not supported with comprehensive, affordable and sustainable approach.

4.3.5 RESTRUCTURING AND IMPROVING SERVICE DELIVERY

140. Flat institutional structures have been designed and introduced in almost all public institutions at federal and sub-national levels as part of the BPR. As described in the afore mentioned Table 2, public service processing steps and time for the delivery of services have drastically improved after implementation of BPR.
141. The civil service reform is owned and executed through vertical and horizontal integration, and encompasses institutions beyond the civil service. The government introduced tools such as BPR and BSC with the aim of instituting a businesslike approach in the civil service. However, BSC is not yet systematically rolled out to all government institutions at federal, regional, and local levels. The performance management system, especially the cascaded BSC performance measurement system designed for individual performers, is not credibly developed and reinforced with enhanced basic pay, performance incentives, training, and career paths.
142. The civil service reform has manifested on-and-off implementation and recycling or fatigue problems during its reform design, planning, and implementation. This risks the sustainability of service delivery to the citizens. Planned and systematic surveys or tracking mechanisms are not carried out on the provision of services to customers or on the implementation of reform tools by institutions. Establishing mechanisms are not properly placed to evaluate intermediate and final outcomes and outputs of the reform programs. Such evaluation of the CSRP implementation provides feedback and reduces the risks of sustainable implementation. It will also help to review the status quo of the program and its attributes.
143. The reform has to be carried out in packages by incorporating all related tools of the reform, standard procedures and information technology. The initiatives and tools of CSRP were not executed with proper sequencing and packaging and parallel to the expected change management methodologies. Hence, the early introduction of results-oriented performance evaluation, Performance Improvement and Restructuring System, and the continued actions such as the refinement and execution of BPR, performance management system, and BSC took longer periods and repetitions. In general, the public sector reform road map is not updated and implemented in a way that properly sequences changes in systems, structures, skills, and attitudes.

4.3.6 ACCOUNTABILITY AND TRANSPARENCY

144. While transparency works have been encouraging, downward accountability and interactions with the Civil Society Organizations (CSOs) is less effective. Some of the outcome indicators for improved transparency and accountability include: reduced incidence of corruption and arbitrariness in rule enforcement (as judged by economic agents); increased access to justice, recourse and redress; enhanced independence of the judiciary; increased access to government information; and local level downward accountability of electorates leaders, civil servants, and front line workers.
145. The study on independence, transparency, and accountability in Ethiopian judiciary revealed that the judicial independence has improved, but progress remains to be made in the understanding of, and respect for, the principles of judicial independence both by judges and by executives. In combating corruption, Ethiopia has put in place the necessary legal and institutional framework. According to the Federal Ethics and Anti-Corruption Commission (FEACC), the challenge of combating corruption that remains is to ensure that the problem does not grow beyond what it is today (FEACC, 2012). Towards this, efforts have been made to strengthen transparency, to enhance oversight, and the implementation of sanctions to improve accountability. There are two opposing views regarding the scale and incidence of corruption in Ethiopia today. One view is that corruption

has become endemic and systemic, while the contrasting view holds that, despite the growing trend, corruption has not yet become deep rooted and systemic. The causes of corruption in Ethiopia are not different from those experienced in other African countries. FEACC (2008) stated that poor governance, lack of accountability and transparency, low level of democratic culture and tradition, lack of citizen participation, lack of clear regulations and authorization, low level of institutional control, extreme poverty and inequity, and centralization of authority and resources are the major causes of corruption in Ethiopia. Moreover, family and ethnic loyalties and obligations, blurred distinction between private and public interests, privatization, weak financial management, inadequate accounting and auditing, weak legal and judicial system, over regulated bureaucracy, deterioration of acceptable moral and ethical values, unsound policies and inefficient civil service system are other causes of corruption in Ethiopia. The perception of the public on these causes of corruption is reflected in different ways. For example, the WCBS (Citizen's Report Card) showed that, at a local level, households who reported making extra payments outside the legal requirement for any government services in the last year decreased from 4.3 percent in 2008 to 4.1 percent in 2010 and then increased to 6.5 percent in 2011.

146. The degree to which Ethiopia is "developmental" depends on how well functioning institutions are, bottom-up and incentivized accountability mechanisms besides the existing top-down disciplines, implementations that would encourage better performance as well as on how it pursues the development or nation-building objectives rather than serving private, and rent-seeking opportunities. Hence, downward accountability is an area that needs further improvement.
147. The accountability of officials and civil servants to the authorities who appoint them is easily discernible. The state of accountability of officials and civil servants to citizens with regard to their performance in service delivery is not easily identifiable. To this end, knowledge on service standards and budgetary allocation is vital for citizens holding officials accountable. Financial transparency and accountability mechanisms are largely at work in many regions. The WCBS Supply Side Survey, using the 74 sample jurisdictions, confirmed that majority (more than 70 percent) of the sample city governments, municipalities and *woredas* allowed their citizens and stakeholders to access their written information in their budget, annual report, strategic plan, tax assessment, services provided by the local government, agenda of the council meetings, and decisions taken by the council.
148. The approach to implementation of transparency accountability (social accountability) initiatives involved varied approaches and actors. The components of decentralized capacity building, local governance, accountability, transparency initiatives under the CSRP and DLDP (including the issues of local level investment planning and participation, social accountability through PBS and ULGDP), and other related reforms have not been scaled up as a major transformation agenda as it has not been sustained and addressed in an integrated and complementary ways at the grassroots. More work is needed for enhancing downward accountability; sustaining the implementation of good governance systems and institutions; and integrating implementation of different reforms and different stakeholder institutions directly involved on accountability and transparency.

4.3.7 LOCAL PLANNING, PARTICIPATION AND SOCIAL ACCOUNTABILITY

149. PSR has improved the combination of bottom up and top-down grassroots participation systems, but sometimes top-down disciplines that dominate stifle participation. The assessment conducted on implementation of good governance package and participation system (PSCAP, 2011) found that citizens demanded rights or voice, even when expressing idea that are contrary or critical of the government. This was one of the indicators for the quality of governance in Ethiopia. According to the assessment, all interviewed officials and cabinet members in the study jurisdictions concurred that the participation process is open in terms of accommodating contrarian views and no

one will be implicated because of his or her opinions. Voluntarism is a major approach in citizen participation and upholding accountability. While allowing contrarian views to be aired in an unedited manner is an important step in its own right. The assessment found two critical issues that need serious attention. The first is the presence of a favorable environment that provides safeguard mechanisms for promoting contrarian views. Second, there is a need to properly handle such contrarian views, since it is only when such ideas receive proper treatment that people will be encouraged to freely share their opinions and ideas (PSCAP, 2011).

150. Prior to the implementation of the good governance package, the Ministry of Capacity Building of FDRE (GGP report, 2009) affirmed that there was no forum for civil society actors and the government to partake in dialogue on how to engage and check and balance with each other. This is realized by instituting the democratic participation of membership-based civil society organizations in the *kebele* and *woreda* councils (but the CSOs have no voting rights).

151. The main dimensions of participation are planning and implementation of communal and self-development activities, local affairs such as arbitrations in social tribunals and maintenance of peace and security at local level, representations of CSOs in Councils, and in M&E activities (PSCAP, 2011). The WCBS Supply Side survey indicated that out of the 74 sample jurisdictions, about 87 percent of the sample city governments, 78 percent of sample municipalities, and 84 percent of sample *woredas* employed participatory planning in the last three years. Based on the same survey, in Amhara and Tigray, 70 percent and 51 percent of women occupied seats in their councils respectively, while the rest of the regions and states provided only 20 percent to 34 percent of council seats for women. The local councils at *woreda* and *kebele* level have been broadened from a minimum of 150 constituents to 300. The participation of women in the council has reached 30 percent to 50 percent. It is possible to mobilize financial, material, and labor resources to supplement the shortage of capital budget for construction of basic services. Social *shengo* consisting of eight to 15 members have been organized to reconcile disputes and minor illegal matters at localities. Areas that need continuous support are the promotion of civil society participation, the enhancement of the engagement of the citizens and voluntarism in government, the participation in policy making, the improvement of the livelihoods of citizens, and the enhancement of demands for participation and accountability in service delivery.

152. Structures are being established for citizen and community participation, planning, and local service delivery. This increased community participation in local planning, budgeting, and administration created an environment for enhancing employment opportunities. The approach must be systematically strengthened for sustainability. But the top down approach to delivery sometimes stifles local initiative and creativity.

4.4 EFFICIENCY OF DELIVERY OF INTERVENTIONS

153. The following two measurements are used to assess how efficiently PSR is delivered:

- Efficiency of operational modality/management
- Quality of tracking, M&E, and communication strategy

4.4.1 EFFICIENCY OF OPERATIONAL MODALITY/MANAGEMENT

154. Operational aspects of PSR programs that bring efficiency include processes such as application of rules, planning, priority setting, and procurement that may incur administrative speed delays and increase the cost of the programs. Another facet of the operational aspect of a program considers whether or not the program is properly included in the government's budget and calendar and activities are implemented according to the planned sequence and priorities based on the rules of the game. Furthermore, decision makers should not keep changing activities, and the PSR should not impose too much of a burden on implementing institutions.

155. In general, PSR programs (specifically PSCAP project support) have been efficiently implemented and designed, despite marginal gaps in incentives, manpower, and further strengthening the capacity of implementations at regional level. The PSCAP program performed well on most of these indicators. Management is efficient in a PSR program as the program cost is relatively low. Management costs account for less than ten percent of the program's total cost. According to the Project Appraisal Document of PSCAP (2004), operating cost is planned five percent of the total estimated project cost. Of these funds, most are used for supportive and facilitation studies by consultants, as well as improvement to planning, procurement, and M&E. Management costs are low because the federal system helps to share the processing time burden across sectors and institutions. Management efficiency is also gained as a result of the program's integration, alignment with existing government systems, pooling of the required funds from different sources, and by building technical staff capacities at the regional level in the early stages. The program is aligned with the existing government system and it has managed to effectively pool funds from different sources.

156. Efficient use of funds for the project indirectly depicts the proper functioning of the delivery system. It can be measured by the proportion of the budget that is used and the extent to which the spent budget helped to meet program objectives. On average, PSR programs in other developing countries use 55-60 percent of their budget, while the share for Ethiopia is more than 70 percent. Some projects are cancelled before completion, while others take longer than planned to complete. In rare cases, projects cost less than planned or are completed ahead of schedule.

157. The PSR initiative does, however, need to pay more attention to institutional structures and incentives for decentralizing decision making power effectively and put in place systems for building the capacities of executives.

4.4.2 QUALITY OF TRACKING, M&E AND COMMUNICATION STRATEGY

158. In most developing countries, large-scale survey and evaluation (M&E) initiatives are rare and, if used, may not cover all aspects of the program. They are usually conducted over short periods. Developing countries rarely monitor and evaluate their PSR programs adequately. Quality tracking mechanisms depend on a country's capacity to deploy a credible M&E system. If implemented, ownership shifts from the donor to the country, and leads to a partnership between the two. Donors help countries to develop the right tools to manage development. Partner countries are responsible for evaluating and reporting on their progress and for using the lessons learned to continuously improve their performance (Morra-Imas and Rist, 2006). In Ethiopia, surveys or reviews of PSR on larger size have been tried rarely. Attempts include PSCAP or PBS overall reviews and area specific surveys, such as the Survey for African Peer Review, CSA Survey, Anticorruption survey and WCBS. Thus, the approach in Ethiopia could be improved by considering the following points:

- The *Woreda* and City Benchmarking Survey were initially designed as a large-scale survey to track the performance of PSCAP using demand and supply side instruments. Government and donors have recommended it to be used as an M&E tool to track the ongoing performance of the whole PSR at local level.
- An institutionalized and common mechanism, which would be owned by the government, should be created to carry out surveys and evaluations on the PSR's specific reform areas. There is a need to scale up or create forums and arrangements that would help use the inputs of the survey and evaluate results. The institutional arrangement could be used for addressing the varying needs of regional states.

159. For a proper PSR program design, a comprehensive communication strategy is crucial. It will communicate the program and its results to decision makers and the public at large. One of the

constraints of the Ethiopian PSR is poor implementation of its communication strategy. This can be demonstrated by the fact that although there are successful areas of reforms, it has not been communicated to the higher decision makers at the country level, to researchers and also by international organs.

4.5 RELEVANCE/APPROPRIATENESS OF THE PSR APPROACH

160. This measurement refers to the appropriateness of an intervention relative to the objective set out (the reform and capacity needs it is expected to address) and in light of the assessment of effectiveness and efficiency discussed so far. The relevance of the PSR design is assessed with regard to the following specific measurements:

- The reform program's "Big Push" design, objectives, contents, and instruments
- Country ownership/commitment and institutional setting/leadership and sustainability

161. The design of a reform approach is given more weight than the content and composition of the reform areas. Often the success of a PSR program depends as much on how it is done compared to what is being done (Polidano, 2001). In Ethiopia, both aspects (the approach and content areas to a lesser degree) are important concerns. The following sections discuss PSR's relevance and appropriateness with regard to the indicators identified, and compares Ethiopia's experience with those of other countries.

4.5.1 THE REFORM PROGRAM DESIGN, CONTENTS AND INSTRUMENTS

4.5.1.1 OVERLAPS AND COMPLEMENTARITIES BETWEEN PROGRAMS

162. Public sector reform in Ethiopia has consisted of multiple instruments: PSCAP, PBS, ULGDP, the earlier budget-support programs, and sector-specific capacity-building initiatives or reforms. Multilateral or bilateral donor agencies also support some programs or projects. The links between these instruments and how they complement each other are essential and could affect the support of donors to the government's GTP. According to the government, state transformation entails institutional transformation and behavioral and attitudinal change in the public sector. Wide arrays of intermediate level indicators and targets have been formulated to express the degree of achievement under the various intervention modalities in the last two decades.

163. PSCAP invests in sector-wide approaches in capacity-building and sector-specific reform areas such as the Civil Service Reform (Sub) Program, Urban Management Capacity Building (Sub) Program, DLDP, and Information and Communication Technology (sub-program). PBS on the other hand focuses on MDG-related, sector-specific capacity-building issues, macroeconomic and fiscal issues, local investment, and social accountability. These two instruments are complementary, but also overlap in some areas. PBS, PSCAP and ULGDP should complement each other. For instance, ULGDP and PSCAP already complement each other in grants for investment and capacity building, and in responding to the priorities at the local level. Further complementarities could be achieved on the following issues:

- a) PSR work areas are identified to achieve the basic principles of public sector management. This should be explicit and be communicated. Reform consists of activities for improvements or changes that are different from regular operation activities, although the former could be eventually streamlined with the latter.
- b) The PSCAP or PBS programs should not be overloaded. It may be possible to redefine projects' objective indicators and intermediate outcome indicators in such a way that their initiatives will support each other toward a common goal.
- c) It is necessary to avoid overlaps within a reform and between reforms by placing it to its appropriate cluster area and institution. Some overlaps exist, for example between GGP, CSR, and PBS's social accountability components.

164. While PSCAP was introduced to meet medium-term goals, PBS focuses on annual developments and changing circumstances. The dimensions of the two could not be easily identified. The government's commitment to the two programs has been variable. Nevertheless, both the government and its partners acknowledge that the Ethiopian public sector reform is a state transformation agenda.

165. At the design stage of PSCAP, the major specific-purpose grant provided to regional states was only for food security, and then afterward for a productivity safety net, a complementary program to ensure food security. At the time, there was no sector-wide, specific-purpose grant in existence other than the productive safety net. The financial resources were earmarked based on a formula that considered the number of beneficiaries and the food security situation. The specific sector grants for the education and health sector development programs were financed through the equity-based block grant to the regional states and city administrations.

4.5.1.2 PSCAP'S "BIG PUSH" APPROACH

166. The question of whether the "Big Push" approach of public sector reform in Ethiopia is useful has to be answered. How and when was the "Big Push" approach to PSR designed and implemented? What were the enabling environments that supported the approach; what were the risks and risk mitigation measures? The "Big Push" approach (comprehensive and integrated) was suitable to Ethiopian conditions for the following reasons:

- a) It was supported with visionary ideas and political commitments. It was initiated at a time of high demand for state transformation by the political leadership, which aimed to bring about ambitious, all-round and rapid economic, social, and political changes in the country. This was supported with coordination, leadership, oversight and adequate government counterpart funds. However, the state transformation agenda is not yet complete and further deepening and consolidation of reforms is necessary.
- b) Due to the need for wide scale reform measures across the tiers of the government, the approach has been massive in scale and rapid. Two systems of capacity building for regional states and the federal government were created. These are:
 - i. Federal component supports across priorities, which focus on scale and network economies and that require prototyping; and
 - ii. Regional component supports across priorities and bulk initiatives to empower regions to adapt and implement national reform priorities. This is in addition to completing their activities in a manner that is efficient, accountable and sustainable.
- c) The financing was both supply and demand driven: the reform addressed the needs of a number of institutions and lagging regional states. This was, however, supported with feasible implementation arrangements, creating capacities, introducing prototypes, and performance-based disbursements or windows of financing.
- d) As the financial requirement for cross cutting PSR was covered, there were more opportunities to expedite resources for development.
- e) The PRS also safeguarded the diversion/leakage of financial resources by putting in place the necessary institutional capacity and accountability reforms for development. For example, the financial control, fiscal decentralization, fiduciary, auditing and reporting systems.
- f) The "Big Push" approach has advantages in meeting the outcomes expected by specific reforms, creating synergies, addressing crosscutting reform areas, and building experiences.

g) The modalities of the PSR approach were efficient and relevant.

167. Nevertheless, a “Big Push” approach has associated problems and risks. The sustainability of the reform approach is affected by risk factors as follows:

- a) The “Big Push” approach, as a first generation of reforms, built up critical mass requirements and now it is accompanied by scaled up qualitative demands. Specifically, there is unmet latent demand for executives at regional and federal levels.
- b) The “Big Push” approach is not linked to the country’s macro level revenue growth. Currently, the reform requires a competitive financial resources and government matching funds parallel to the financial requirements for the ambitious GTP’s and environs of influence from economic and social infrastructure development. A “Big Push” approach is not linked to alternative financing, which in turn entails an unsustainable situation for state transformation
- c) Local revenue and grants are inadequate for capital development and capacity building, which downgrades the incentive for reforms.
- d) The PSR now depends on expanding a poorly paid civil service.
- h) Some reforms lack complementarities or overlap with each other; and thus PSR require an overall framework for coordination and synergies both on the government and donor sides.
- i) Informally, the financial decision-making power of regional governments is taking over that of local governments.

168. In the future, the PSR should be adjusted to avert the risks of financial requirements, scale of needs, and poorly paid and less incentivized civil servants. The following three alternatives could be considered in choosing the system of PSR for the second generation.

1. Decentralize/deepen and enhance the PSR role of regions and local governments by legitimizing their decision-making power and providing financial resources to carry out reforms. Parallel to this, there is a need to subsequently downstream the PSR implementation responsibility to the local level.
2. Continue with the existing “whole government approach” of the PSR that is carried out by regions and federal government, but modify the approach to fit the existing changes (e.g. with a sequenced and incremental type of system within reform areas). However, this might limit the progress and the way to reforms at the regional level because it necessitates the clearance of the coordinating federal level supervising bodies.
3. The third—and contrary—alternative is to recentralize some of the reform elements at federal level and/or focus on a few regions at a time to avoid the “Big Push” approach. But this might have adverse impact on the effectiveness and pace of the implementation of the reform.

4.5.1.3 IMPROVING SERVICE DELIVERY AND ACHIEVING THE MDGs - THE PBS APPROACH

169. Since 2006, the PBS program has been the main multi-donor channel (large scale supported with 12 donors) that supported the improvement of basic services in education, health, agriculture, water supply and sanitation, and rural roads delivered by sub-national governments, while deepening transparency and local accountability in service delivery. It has been governed by the implementation of agreed conditions and tests related to fairness, accountability, transparency, and effectiveness of expenditures. Additionally, ensuring the supplementation of donor funds to the

government's own financing of the block grant. The overall expenditure to basic services was high. Between 2005 and 2010, the annual average growth rate of basic service regional expenditure per capita was 5.7 percent parallel to the growth rate of the total government expenditure of 6.1 percent. Between 2006 and 2011, real per capita expenditure in education and health was four percent and six percent respectively (Delegation of the European Union to Ethiopia, 2012). Hence, BPS supported the improvement of basic service delivery and achievement of MDGs (for the sample achievements of MDG, please see Table 7).

170. Protection of Basic Services (PBS) is designed as a sector investment and maintenance loan. It ensures that a pool of financial resources is directly transferred to regional governments to improve basic service delivery. Before PBS, PRSCs were used until 2005, but not during the Ethiopia-Eritrea conflict. The government believes that PBS financing for recurrent budget expenditures is more or less equivalent to budget support. However, a shift to budget support could increase the flexibility of the application of the funds and accountability by the government. The partners could add anchors and accountability measures, which could ensure—in a more convincing way than dealing with a number of overseeing interventions—that the transformation or reform agenda goes forth.
171. Financing recurrent expenditures from the PBS donor fund indefinitely could lead to dependency. As mentioned earlier, the ratio of domestic revenue to recurrent expenditure has steadily increased, posing questions on the sustainability and impact of financing recurrent budget through PBS. LIG conditions were not simplified and were not adequately earmarked. One way of averting such a situation is to fund expenditures through specific grants that have fewer conditions than LIG had. The capital financing transferred through such a grant should be more competitive and attractive than the prevailing government transfer arrangements. It should also be complemented by specific purpose grants for public sector reform and capacity building. The fiscal transfer practices other countries use to allocate large shares of funding through specific purpose grants and not untied grants.
172. Credible and relatively large share specific purpose grants are not provided to local governments through regional governments, or from federal government to regional governments for the purpose of local governments. Despite these assumptions, the specific purpose grants transfer also affects the pattern of the transfer of block grant and local autonomy. The devolution of power is related to local autonomy and building trust by local people, which entails a larger share of transfer proportional to expenditure assignments of a local government through the disposal of local governments than by regional governments.

4.5.1.4 THE ROLE OF REGIONS

173. There are several regional implications in view of the previously discussed options for the second generation of reform. The whole government approach for public sector reform should change to a differentiated or selective approach. The government needs to evaluate its revenue capacity to finance the PSR and get maximum returns in achieving the state transformation agenda. The regional states are the major actors in achieving the agenda. The responsiveness of the regional governments would be higher, as they are closer to the grassroots.
174. The Ethiopian Constitution made regional and *woreda* self-governance possible. In spite of legitimizing self-rule, remnants of the old order follow a top-down approach in formulating and implementing government policy. In addition, regions depend heavily on central governments for resources and *woredas* do the same with regional governments. This leaves little room for genuine or meaningful democratic decentralization that can be expected to improve service delivery, as well as enhance empowerment at the grassroots level.

4.5.2 PROGRAM DESIGN ISSUES

a) Theories and Countries Practices on Program Design

175. Among others, program design should consider a) refining the purpose, objective or strategy of the intervention, b) the consistency or synergy of a reform project or program, and c) the acceptable scope for a program or project. The final point is especially important to determine the depth of involvement by the private sector, informal sector, civil society, and geographical regions. These issues impact strategic alignment, consistency, and sustainability of the value that reform initiatives add. Theories and lessons on public sector reform and governance suggest crosscutting lessons for further improvement. The Oxford Policy Management's Evaluation of Public Sector Governance Reforms 2001-2011, a Literature Review by Zoë Scott, pointed out the generic lessons about Public Sector Governance Reforms listed below. Ethiopia's experience has verified these lessons.

- Incremental approaches taken within reforms may be more sustainable and politically feasible.
- Timing and sequencing of reforms should be major considerations when designing and planning the implementation of PSR.
- Change donor behavior and systems so that support is more long-term, predictable, and not entangled with perverse incentives.
- Donors should consider how they could support citizens in creating public pressure for reform.
- Pay attention to politics in both the design and the implementation of reforms.
- Reforms require strong domestic leadership to be successful.
- Poor public sector performance must be addressed, although there is no consensus on how to do this. Suggestions include: increasing staffing levels, focusing on pay reform, introducing more performance management, and supporting organizational change.

176. The following table (Table 13) provides the experiences of eight countries (Ethiopia, Australia, New Zealand, Tanzania, South Africa, Nigeria, Ghana, and Mozambique) with some comments on program design issues, especially the purpose of the program and its scope and whether the private sector and civil society is involved.

TABLE 13: INTERNATIONAL EXPERIENCES WITH DIFFERENT PSR DESIGNS

Country	Measure	Reform design approach	Comments
Ethiopia	Strategy	Good governance and capacity building is a pillar of the GTP. Government believes national programs, policies and strategies that strengthen and sustain the country's capacity are vital to the ongoing process of democratization	Integrated, cross-sectorial sub-programs at federal and regional levels. Decentralized arrangement of implementation. Synergy for scaling up or enhancing implementation. Across the board implementation, strategic formulation, decision-making on resource transfer, reporting, and accountability. Capacity needs should be linked more to value chains.

Country	Measure	Reform design approach	Comments
1. Australia	Strategy framework for reform	Development of blue print for reforms as a guiding framework.	A well planned framework/strategies for implementation. Have nine signature reforms, grouped as four core components for a high-performing Australian public service.
2. New Zealand	Strategy for public management as third-generation comprehensive reforms	Third generation reforms were put in place to restore coherence to government and attention switched to horizontal coordination and integration	Focus on policy problems and the quality of services as a whole rather than on narrower reforms.
3. Tanzania	Scope and incorporation	Reform programs consisting of independent reforms. I.e. public service reform, local government reform, legal sector reform. Overcome the challenges of coordination, finding overlaps, conflicts, areas of synergy, and monitoring and evaluating in the various programs.	Comprehensive reform and synergies from simultaneous reforms.
4. South Africa	Programmatic – comprehensive scope	Reform design based on broader issues and demand driven, but implemented on limited scale in specific institutions.	Programmatic design for specific reforms
5. Nigeria	Programmatic – comprehensive scope	Reform design based on broader issues and demand driven, but implemented on a limited scale in specific institutions.	Comprehensive design, applying diagnostic methods to broader issues.
6. Mozambique	Programmatic	Focus on mainstreaming capacity in development sectors within poverty reduction or macro strategy and coordination of donor support.	Capacity building failed mostly due to a lack of coherent strategy and problems with the design and implementation.

Country	Measure	Reform design approach	Comments
	Strategy coordination focuses on technical assistance and fragmentation.	Strategies mostly paid attention to improving sector management and coordinating donor support.	PSR project not implemented. Contradictory views for the reasons: commitment, design or implementation problems, question of donors' sustainability and focus on technical assistance for sectors.
	Specific sectors	The 2004 Public Sector Reform project was an attempt to take a more integrated, cross-sector approach to the issue of performance incentives and a sector-wide health sector reform program.	Linking sector specific reforms to performance incentives.
7. Ghana	Overall strategy	No overall strategy for capacity building was articulated and the interrelationships between public sector reform and sector programs were not explicitly managed.	Less integration among projects. Privatization, decentralization, public service reforms have been on the agenda with limited results. Least successful capacity support has been in public sector reform. Failure in such areas as public service reform and the computerization of public expenditure management.

Source: extracted from literature review of countries, 2004-2010, Australia, New Zealand, Tanzania, South Africa, Nigeria, Mozambique, Ghana and Ethiopia

b) Refining the purpose, objective or strategy and consistency of the Ethiopian PSR reform

177. A few Sub-Saharan Africa countries applied a cross-sectorial and integrated PSR approach aligned with the goals of democratization or development, and Ethiopia is one of them. The quality of a reform program depends on the existence of a coherent reform strategy and adherence to it, the alignment of a standalone or an integrated reform project/program to national strategies and policies, and the synergies or value chains sought. Ethiopia's strategy has focused relatively more on strengthening sectorial capacity bottlenecks in service delivery chains than in strengthening sectorial value chains, as well as the supply side of intervention than the demand side of intervention. The World Bank's Support to It, Africa's Future (2011A), and the World Bank approach to Public Sector Management (2011B) indicate the new approach and future strategies to public sector capacity and governance. The World Bank strategy for a New Approach to Capacity Development concludes that capacity development and governance are central to the new Africa strategy because they are keys to attaining the strategic pillars. The new approach links capacity development to the growth and poverty reduction agenda. It emphasizes on solving capacity bottlenecks in value chains and in service delivery chains, and focuses to be given on demand and supply. These are relevant to filling the gaps in Ethiopia. It is necessary to align reform areas to the value chain of sector developments,

competitiveness and employment opportunities; placing emphasis on downstream sectors, building the country systems across disciplines, rather than dealing on stand-alone, ring-fenced investment projects. Under the new capacity development approach, the World Bank will mainstream capacity issues in CAS and monitor progress on the basis of agreed upon benchmarks. One critical lesson is that despite the understanding that reform is a long-term undertaking. In actuality, short-term measures are often deployed. Reforms that are considered largely as donor-supported projects with a timeline tend to fade away with time.

178. The purpose and objective of the next PSR phase in line with the GTP's current governance and capacity-building agenda could be redefined as:

- Strengthening the capacity of the state,
- Building transparency and accountability, combating corruption, and
- Strengthening democracy and public participation
- Giving emphasis to value chains, focusing on demand and supply while aligning the approach with national strategies and policies

c) Scope of the program or project design of Ethiopia's PSR

179. Most developing countries have moved away from the isolated and fragmented approach of the 1990s. Even so, a number of countries still have standalone, sector-specific PSR programs for poverty reduction. In most African countries, the modern-day PSR programs started from structural adjustment programs, moved to civil service (administrative) reforms and then to sector-wide (public sector) management reforms. Subsequently, the emphasis started moving back towards sub-sector reforms, with specific sectors receiving special emphasis (Obong'o, 2011). The types of reform programs could be classified as follows:

- Specific Sector-Wide Program – contained in a sector or sectors as is the case in most developed and developing countries.
- “Big Push”/Bang Sector-Wide Program – comprehensive and highly integrated, or whole government reform program, like the one in Ethiopia.
- “Big Push”/Bang, but marginally integrated Sector-Wide Program – less comprehensive, such as the reform programs in Tanzania and South Africa.
- Stand-alone projects.

180. Ethiopia adopted a “Big Push”/Bang Sector-Wide Comprehensive Program to correct the wide scale institutional deficiencies. In this regard, Dia (in Polidano, 2001) argues that countries with a high level of patrimonialism in government, there is a need for a comprehensive institutional reform program to “correct patrimonial distortions in the institutional environment.” Uganda found this to be the case—they needed a wide-ranging, holistic approach because government's administrative failures there stemmed from more than technical incompetence. However, such holistic programs are prone to attempting too much. Because of this, they then fail since they are unable to implement (Polidano, 2001).

181. The Ethiopian PSCAP integrates projects across public institutions, spatial units, pillars or elements of reform, and for pooling investment. However, it lacks reliable phasing and should consider an incremental approach within reforms. Experience is lacking on finding an acceptable mix and all round level of integration, and this should be explored further for Ethiopia. The types of

vertical or horizontal integrations in different countries could be classified as integration of broader perspectives or policy issues, integration of sectors, integration across public institutions, integration across spatial units, integration of pillars or elements of reform, integration of operational modality, and integration for pooling investment. The Australian public service reform integrates strategies, the Tanzanian comprehensive reform integrates programs on operational modalities, and the New Zealand cyclical horizontal and vertical reform integrates operational modalities with broader policy issues.

182. In Ethiopia, the reform crosses a number of public sector institutions including the legislatures and judiciary branches of government. Despite this fact, some government institutions and systems are still not aligned with the PSR approach, and where the transformation agenda has reached in these institutions, it often exists at the level of planning and awareness rather than implementation. Non-state actors are not yet fully aligned. Most developing countries limit their PSRs to institutions in the public sector but the newer approaches include non-state actors and extended reform implementation to legislatures and judiciary branches of government. The approach can extend to non-state actors such as civil society and to the private sector (in the areas of corporate governance), as was practiced in the European Union. For instance, changing the working conditions (and expectations) for public sector workers to align more closely with those in the private sector is another approach that the European Union has followed.

4.6 COUNTRY OWNERSHIP/ COMMITMENT, INSTITUTIONAL SETTING, LEADERSHIP AND SUSTAINABILITY

183. This indicator measures whether the intervention is locally owned and sustainable. It consists of macro and institution level design and operational implementation measures. The indicator has the following specific measurements:

- Ownership and political commitment
- Appropriateness of fit to institutional setting

4.6.1 OWNERSHIP AND POLITICAL COMMITMENT

184. Understanding the incentives for initiation and execution of PSR program in Ethiopia is an important issue for sustainability. Simone Bunse and Verena Fritz (2012) assessed the political driving factors of countries that can trigger or facilitate public sector reforms, and those that tend to work against successful reforms by investigating the experience of World Bank public sector operations from 2000 to 2010. Similar to the Ethiopian situation, real breakthroughs have been achieved in countries experiencing major structural shifts and those having political leadership committed to higher-level goals. On the other side, in many developing countries, political costs for incentives to initiate public sector reforms frequently outweigh potential gains; and hence reforms are abandoned or left to wither. In this regard, factors which can trigger or induce initiation of PSR in many countries are found to be the need for global economic integration and in some countries, the triggers are happenings of fiscal pressures or influences recent democratization. Conditions that strongly or possibly favor PSR in a few countries are the existence of rapid and sustained growth while many countries favor PSR for seeking government legitimacy. Thus, investing in understanding political economy drivers has been associated with better project performance and sustained growth. On the other hand, the disincentive for PSR in many of the countries is the fear that benefit of PSR might not be reaped during the tenure of the government. Other disincentive factors are the bureaucratic resistance that increases the political cost of implementation.

185. Considering the above findings, in Ethiopia, the incentive that triggers or sustains PSR programs are linked to: political leadership commitment to higher-level goals, the nature of responsiveness of stakeholders, the bureaucratic resistance, the need for enhancing the legitimacy of government, and

the influences of democratization. Concurrent to the findings is the existence of rapid and sustained growth. Correspondingly, the need for the reform has been the major drive. The government was committed to ensuring the sustainability of the capacity development activities because it was a primary means of ensuring continued social and economic development, as well as contributing to the continuing legitimacy of Ethiopia as a Federal State. The government's initial political commitment to PSR (PSCAP, PBS) was high. Donors found Ethiopia's commitment to PSR convincing enough to support it over the past seven years. Donors, the World Bank, and the government preferred budget-support modalities because: i) such modalities are easy ways to disburse money quickly on issues that are considered equitable, justifiable, and critical for the development of a country; and ii) for the government, this method is relatively free of policy conditionality and other "strings," giving them much needed foreign exchange quickly (as it was meant to do).

186. However, as the project of PSR draws closer to its end, the strategy for sustaining reforms that are in their early stages is not clear, which increases the risk of sustainability. The views on sustaining reforms were inconsistent either in reform components as whole or on specific contents of reform. Regional and federal beneficiary agencies are now interested in the significance of the sustainability of the PSR. There were several possible reasons behind this change in attitude about the sustainability of PSR. This could be due to:

- Conflicts of interest such as the focus given to the alternative financial requirement for infrastructure rather than spending on reforms.
- Easy spending or tradeoffs in other priorities than reforms.
- The avoidance of specific conditionality.
- Lack of understanding regarding the relative importance of PSR as a global public sector management issue; some stakeholders show less attention in carrying forward integrated and packaged public sector reform.
- Lack of strong leadership and capacity, and lack of proper communication among the leadership.

187. Thus, different views are forwarded regarding ownership of the PSR and any specifics that are not binding by all actors involved in the reform. The government has continued its commitment as a result of the new developments including: the assignment of three Deputy Prime Ministers for governance and capacity building, economic and social clusters at federal level; following up reforms by holding monthly regular meetings with reform leading or beneficiary government institutions; and the government's commitment for sustaining the reforms as demonstrated by the strategies and different political fora. It is a fact that the goal of state's transformation agenda is unfulfilled. A number of reform areas are not yet regular functions in the public sector. This might give room for reconsideration.

188. Experience shows that the important factors for ownership and sustainability are the political agenda of the reform program, quality of commitment to the program, focus on more than technical aspects alone, sustainability of institutional power, and flexibility to adapt to changing circumstances. Observers who have followed recent reforms in countries such as Britain, New Zealand, and Australia see political commitment as a significant factor. These countries' PSRs were vigorously implemented because they had an exceptionally high degree of political backing. Finland has had a similar experience over the past twenty years (Koivurinta, 2006). In most of the other countries mentioned in this document, PSRs have failed because they never get past the implementation stage. Political forces block them outright or implement them only in a tokenistic, half-hearted fashion (Polidano, 2001). Mexico's New Public Management (NPM) is another case in point. The dramatic changes in the Mexican public sector since 1997 result from democratization, political commitment, and decisions in the congress, rather than from deliberate reforms inspired by NPM alone (Cejudo, 2008).

189. The other issue related to reform support by donors is the socio-political situation affecting the reform. It is only when these reforms become overt political party (establishing or maintaining networks of patronage or overtly stifling political opposition for example) that donor partners have valid cause for concern. Some mention distortions and inconsistencies in pursuing BPR, BSC, and mass training. Evidence to support this view with regard to Ethiopia is, to say the least, thin or fragmented in time. It is necessary to allow for some “ground truthing” ensuring that any issues raised around the use of reform programs for party political ends can be tested, either proving or disproving it. The reform is clearly a political program in its nature. It is, quite overtly, a means of implementing a political vision of democratization.

4.6.2 APPROPRIATENESS TO INSTITUTIONAL SETTING

190. One way to determine how well PSR fits its institutional setting is to evaluate the following aspects of coordinating and executing institutions: commitment, ownership, quality of leadership, mandate, capacity, competence and experience in the field, management flexibility, decentralization of the interventions, and organizational cost effectiveness. For example, PSCAP has been properly managed through a matrix management arrangement and coordinated by one competent body (MOCB) at federal level and 12 counterpart bureaus at the regional level. It has also one financial resource disbursement and management body at federal level, and 12 financial resource disbursement and management bodies at regional level. The program is implemented using one common medium-term framework at all level. Currently, the Ministry of Civil Service (previously the MCB) coordinates PSCAP. MoCS could have taken initiatives for coordinating reform areas effectively with a support of parallel line agencies or overseeing body.

191. The focal institution for capacity building has roles in coordinating lead cabinet ministries and regions and overseeing the overall implementation of PSCAP; it ensures rule based allocation and reallocation, facilitates budgetary approvals and executions for the beneficiary institutions; approves PSCAP plans for the federal and the regional components, approves midyear and annual allocation and reallocation of PSCAP ‘rights’; executes its own plans; and conducts periodical evaluations. The arrangement has helped to drive changes and ensure institutional sustainability by strengthening implementation capabilities, installing overseeing mechanisms, and creating flexible arrangements of financing. This is in addition to reducing administrative and operational costs for scale economies, for harmonizing donors, and for drawing fund through pool arrangement. It was especially important in gauging, scaling up, mentoring, and keeping the consistently of the overall implementation.

192. Experience shows that commitment and leadership are critical factors for reform programs and that they depend on the mandate of the driving institution, its power to ensure compliance, the balancing of the decentralizing management system, and the existence of a support or supervising body for the institution at a higher level. In Ghana, the presidential office is mandated to oversee its PSR with technical support from subordinate agencies and ministries. Tanzania formed coordinating institutions to identify overlaps and conflicts in the components of its PSR and to monitor and evaluate its success. However, subordinate coordinating agencies lacked the power to summon parallel agencies and were not successful. South Africa gave this role to its Department of Public Service and Administration and the South African Management Development Institute. Malawi drafted its program for execution by different departments. Most developed countries use a specific institution, supported by supervisory bodies consisting of officials and professionals, in order to lead their PSRs.

193. Ethiopia can learn a lesson from Australia, which created the Australian Public Service Commission to drive its PSR. The Commission provides strategic planning, expertise, guidance, and performance monitoring for the implementation of agencies. The Advisory Group’s Secretaries Board supports the Commission and reports to the Prime Minister. Partnerships exist between specific public institutions and consulting or research institutions in the private sector to receive

technical assistance (Advisory Group on Reform of Australian Government Administration, 2010). Lead agencies were identified for each reform and they must develop more detailed implementation plans in consultation with other agencies and, in some cases, external organizations. Their Blueprint for the Reform of Australian Government Administration proposes the creation of a Secretaries Board and a Senior Executive Service group to strengthen leadership in the Public Service Commission. These leadership groups were to drive reform in areas such as strategic policy, citizen-centered service delivery, and collaboration across the program.

194. Another way to determine how well a PSR fits its institutional setting is by evaluating to what extent interventions have increased decentralization. Currently developing countries like Ethiopia are experiencing a demand from their citizens for better capacity, service delivery, good governance, and accountability at national and sub-national government level. PSRs in such situations should, therefore, decentralize decision-making powers to execute reforms. Countries usually tend to establish executive bodies at central and local levels rather than at intermediate (regional) levels. Ethiopia implemented PSR more in a decentralized way. Sub-national governments including *woreda* administrations and urban local governments, however, need to have full autonomy on deciding the financing and prioritization of their reform activities.

5. MAJOR FINDINGS AND LESSONS OF ETHIOPIAN APPROACH TO PSR

195. This chapter provides some major findings and lessons learned from the PSR approach in Ethiopia. It gives insight to Ethiopia's evolving reform approach. During the past two decades, Ethiopian public sector reform has transformed the state by improving the government structure at federal, regional, and local levels, improving policymaking and service delivery, and strengthening decentralization and decision-making power. This transformation has also improved resource mobilization and management and strengthened oversight and accountability functions.

5.1 MAJOR FINDINGS OF THE ETHIOPIA'S PSR

196. The following are the major observations and findings of the assessment:

- 1) The PSR "Big Push" approach has been relevant as it met the intended reform/capacity building objective in fulfilling the supply driven critical mass questions of institutional and governance changes in the first generation. As described earlier, the approach has been effective and efficient in provided homegrown solutions. The approach was relevant as it is owned and created institutional capacities for implementation despite on and off situations in the course of implementation. The government has continued its commitment as a result of the new developments.
- 2) Ethiopia's indicator for government effectiveness has shown trends of improvement in the last seven years as a result of reform efforts. Some of the local studies conducted show that there are improvements in most areas. There are, however, some indications of lagging in certain situations. International based comparative studies and surveys show that some of the indicators, such as regulatory quality, as well as stagnant or deteriorating trends on control of corruption, voice and accountability, political stability/absence of violence, and the rule of law. However, the data and value of indicators of these local studies have not been assembled to provide generic results and comparisons across countries. Therefore, PSRs should enable more assessment of the gaps and should suggest measures for enhancing the lagging and critical aspects of governance and democratization indicators in the country.
- 3) The government has indicated this as good governance and capacity building strategic pillar in its ongoing GTP. To this end, there are a number of reform areas that should be continued with adequate financial support. These reform areas are not yet regular functions in the public sector. These areas impact the governance and democratization process of the country, especially by changing the life styles of the people. In this regard, it is worth to mention some of the influencing areas: good governance, decentralized capacity building, Information Communication Technology, Civil Service Reform, resource management, justice, and rule of law, among other things.
- 4) The government's initial political commitment to PSR was high. Assessments on consultations of stakeholders showed that, although high demand exists for carrying out an integrated PSR across ministries and among regional leaders, some institutions have shown less ownership for PSR. This could be due to a lack of understanding of the relative importance of PSR as a global public sector management issue, lack of communication within the leadership, or factors related to tradeoffs of using financial resource to infrastructure.
- 5) The design of Ethiopian PSR has been politically motivated, but the successes resulted from a combination of its approach and content. The PSR considered both the approaches on how to do and the mix of reform content areas that are feasible. Both of these factors received considerable attention in the design and execution of the PSR in Ethiopia. The government also

believed that PSR program is both political and technical in nature and separate political and technical reforms are bound to fail.

- 6) There was institutional leadership/coordination capacity that was highly important for effective implementation of PSR. For a large-scale public sector reform, the creation of a legitimate focal institution and a matrix management structure has been an important institutional arrangement to drive the change. But such institutions need to be sustainable, empowered, and capacitated, in addition to being supported with a decentralized technical body. The existence of powerful focal institutions (Ministry in charge of Capacity Building) and matrix institutional arrangement both at federal and regional levels have been relevant factor for the success of the public sector reform and capacity building efforts. It helped to draw visionary ideas, drive the change, and maintain consistency of implementation nationally. The coordination has been relevant to embrace the transformation agenda and the vision of the country.
- 7) Integrated and holistic orientation and complementarities between PSR instruments is vital for translating the GTP of Ethiopia into action. PSR has an integrated and holistic orientation, evident in its combined support for capacity building (human resources, organizations, and systems) across sectors that integrate all aspects of service delivery. Furthermore, a sector-wide approach prevented the costs of separately designed and implemented programs, which would each need to seek donor and government resources on their own. It gave lessons that reform agendas should not revert to models that use one or a few reform area or focus on short-term goals. Moreover, the PSR in Ethiopia consisted of multiple instruments (PSCAP, PBS, and ULGDP) following the earlier budget-support programs and sector-specific capacity building initiatives or reforms. With some gaps, complementarities exist between PSR instruments and this is essential for translating the government's transformation agenda into action.
- 8) The design of a “Big Bang” approach against the established wisdom has been relevant in the Ethiopian context, but improvements are not yet made parallel to the changing demands and modalities. Ethiopia used a “Big Bang” like PSR approach that went against the established wisdom. For political reasons, Ethiopia is dedicated to tackling reform holistically; it is ideologically against the idea of pilots, attempting to address a broad agenda across all jurisdictions. However, as the country improves in the future, incremental approaches within reform areas may be more sustainable and feasible for management.
- 9) PSR interventions have placed efficient management system and have been accompanied by varied capacity. The Ethiopian PSR programs performed well based on the management efficiency indicators. The PSR projects used their funds in a much better proportion. Improving the operational modalities and focuses of interventions could enhance the efficiency of management.
- 10) In the design of PSR, alignment with decentralization and government systems has been an important support feature for the government and donors. Aligning PSR to decentralization efforts helped to reach the grassroots. It distributed powers and responsibilities to regional states and city administrations, which enhanced accountability and service delivery. All PSR programs are harmonized and aligned with the fiscal, fiduciary and reporting requirements of the government, as well as various donors. The approach aligned PSR closely with Ethiopia's public financial management, intergovernmental transfer and planning system. Similarly, the structure of fiscal decentralization in Ethiopia has been an important entry point for the PSR while at the same time the PSR has supported the functioning of fiscal federalism.
- 11) Continuous efforts have been made to narrow regional/local differentiations. However, there is a need to enhance the rate of growth the lagging regions and localities in order to minimize the growing differences with the better of regions and localities. In other words, as relatively better

regions and localities grow at a faster rate than the lagging regions and localities, the latter ones have to grow at a much faster rate. The differences could be manifested in their capacities (e.g. in the implementation of reforms qualitatively and timely by regions/localities) and development levels (e.g. in the contribution to MDG or GTP goals by regions/localities). The situation has to be improved by giving special emphasis in lagging regions and localities and with steady progress of PSR implementation. These enhanced reform works have to be sustained and supported by decentralizing the bulk of reform decision making responsibilities to regions and local levels parallel to building up their implementation capacities.

- 12) Local orientation and learning-by-doing practice of the approach and M&E have been highly important in the implementation of large-scale reforms. In the large-scale reform, learning-by-doing what works best locally has helped to implement reform activities in a number of institutions, regions, and localities. As a result of the PSR, progress has been made in the federal system and decentralization process, moving the access and efficiency of service delivery and ensuring good governance and accountability. The public sector reform has an inbuilt large scale benchmarking survey as an M&E tool, which helps to reassure donors about the efficacy of disbursing resources for extensive reforms that cater to eleven regional states/city administrations and more than 800 local governments. Other important features and lessons are initiating SAFE mechanism, LIG, and FTAPS, carrying out M&E through JARIS and JBAR in the PBS. The independent annual performance evaluation under ULGDP is also another lesson worth sharing.
- 13) The government's objectives of supporting democratization through decentralizing decision making on political, administrative, and fiscal decentralization dimensions have been an important step forward. The image of the decentralization is quite robust *de jure* (especially compared to the rest of African countries), but somewhat more limited *de facto* in specific areas, which should be examined for further intervention. Notable among the constraints to decentralization are: limited own-source revenues and tax bases for local governments; lack of a specific-purpose grant for financing investments; a degree of excessive top-down control on certain planning and policy issues; and low capacity at sub-national levels and lack of downward accountability.
- 14) The specific-purpose fiscal transfers/grants have not been systematically improved consistent to the fiscal and expenditure situations of regional and local governments. Sub-national governments (regions, *woredas*, towns, and city administrations) are at different levels of capacity to sustainably implement development activities. To reduce the disparity, a clear rule exists for allocating resources from the federal government to sub-national governments in the general-purpose grant. However, with due consideration of capacities at sub-national level, a well-functioning specific-purpose grant system has not been established, except for attempts in programs such as PSCAP, ULGDP, including LIG (which will be terminated after 2012).
- 15) One of the highlighted achievements is the introduction of business-like approaches, such as the BPR and BSC in the Ethiopian public sector, over the last four years with significant number of public institutions improving their efficiency in service delivery. However, the government is still undertaking actions to build effective institutions. BPR and BSC led to restructuring, strategic planning, and performance improvement. All institutions at all levels of government have implemented BPR, and this has improved the efficiency of government institutions. To this end, however, an enforcing and evaluation mechanism is not properly established to reverse the threats of inefficient service delivery and deteriorating accountability.
- 16) Civil servants in Ethiopia receive low basic pay and few incentives. This has impact on productivity, turnover, retention, and recruitment of manpower. Ethiopian public sector pay

structure, pay practices, incentives, and financing situation are not yet improved to sustain the productivity and availability of manpower. The reforms have demanded many changes from civil servants, and there are many examples of individuals making enormous efforts to implement the new focus on service delivery. This type of commitment is not sustainable without improvement in the annual basic pay of civil servants and a system of recognition, as well as reward. The wage ratios between civil servants, NGOs, the private sector, and donor agencies are high. The end result has been a high staff turnover for most sectors of the public service. In addition, an appropriate performance management system is still evolving and not yet linked to performance incentives.

- 17) Relative changes have been made in some of the outcome indicators of transparency and accountability specially on increased access to government information; reduced incidence of corruption and arbitrariness in rule enforcement (as judged by economic agents); increased access to justice, recourse and redress; enhanced independence of the judiciary; and some degree of local level accountability of front line workers by the citizens. The implementation of transparency and accountability initiatives involved varied approaches and actors. Such reform area has to be sustained and addressed in an integrated and complementary ways at the grassroots. More work is needed for enhancing downward accountability, sustaining the implementation of good governance systems and related facilitating institutions, streamlining the implementation of different reforms, and integrating different stakeholder institutions. For example: PBS focused social accountability/transparency and accountability initiative; good governance package focused activities; CSRP focused activities and other democratic institutions activities directly dealing on accountability and transparency, such as DIP; sector specific governance activities; and the Auditor General activities.
- 18) Despite the need for financing the ambitious GTP, revenue as a share of GDP has stayed static and at times declined marginally. In spite of the improvements in revenue collection, domestic revenue as a share of GDP has stayed static and at times declined marginally. The potential revenue study is lagging. In order to sustain the growth and development of the country, a quantum change in revenue collection efforts is required.
- 19) With regard to financial management, important results have been achieved on putting in place the Legal and policy frameworks, transparency, accountability, improving the efficiency of the services, enhancing the control in financial management, external scrutiny, and audit. Actions have been taken to improve the budgeting and accounting systems and procurement systems in order to improve efficiency, predictability budget and budget outturns and maintain prudence in financial transactions. Financial information system have been improved progressively by introducing tools such as Budget Information System (BIS), Budget Disbursement and Accounts (BDA), and later Integrated Budget and Expenditure Management System (IBEX) replacing both the BIS system and the BDA system. Additionally, they introduced templates of financial transparency and accountability at local levels. Some of the areas of activities that have been given emphasis are the introduction and rollout of IFMIS projects countrywide, the connection of all public bodies with WoredaNet, the establishment of LAN within the public bodies, the creation of IT supports, internal control and performance budgeting, and procurement. One of the challenges as recognized by the government includes enhancing the budget process based on policies (programming/performance budgeting framework).

5.2 LESSONS LEARNED FROM ETHIOPIA'S PSR

197. The major lessons that could be drawn from Ethiopian PSR are the following.

- 1) Most countries follow an incremental and standalone PSR approach. Contrary to the established wisdom, Ethiopia's experience is that its "Big Push" approach has been successful due to political

commitments, the existence of a decentralized federal system, and resulting from a combination of its approach and content. Both of these factors, the approach and content, received considerable attention in the design and execution of the PSR in Ethiopia. Ethiopia successfully followed a holistic approach that developed human resources, organizations, and systems together across sectors to integrate all aspects of service delivery. The approach is characterized by large-scale PSR, which it requires for its decentralized implementation. An independent, large scale, and long term M&E tool is necessary to reassure donors about the efficiency of disbursing resources to a large-scale reform like Ethiopia.

- 2) In the Ethiopian experience, the PSR design was politically motivated, but supported with suitable techniques. Political and technical reforms were not separately treated to avoid failures.
- 3) As a federal country, Ethiopia's PSR focus was on sub-national levels of governments. This enabled these governments to adapt national policies, determine their own priorities and sequence implementation despite some gaps on empowerment to policy decisions. They are able to tailor implementations to local needs and so increase the program's success. Aligning PSR with decentralization efforts helped to reach the grassroots. It helped to strengthen powers and responsibilities to regional states, *woreda*, and city administrations, and this enhanced accountability and service delivery.
- 4) A large-scale public sector reform requires a legitimate focal institution and a matrix management structure to drive the change.
- 5) PSR approach brought cost saving benefits as it was harmonized and aligned with the fiscal, fiduciary, and reporting requirements of various donors. It also aligned closely with Ethiopia's public financial management, intergovernmental transfers, and planning system.
- 6) The fact that performance-based inter-regional reallocation of PSCAP resources was not largely implemented resulted in a supply rather than a demand driven financing of reform components. This in turn called the implementation of financing system that was flexible and adaptable to changes.
- 7) Learning-by-doing what works best locally has helped to scale up reform activities in institutions, regions, and localities. To this end, initiatives such as developing minimum mandatory capacity building implementation activities, prototypes for regions, formulating performance based reallocation mechanisms based on competitions, establishing monitoring mechanisms (supply and demand side survey), and simplifying templates for transparency at local level are some lessons of learning-by-doing exercise.

6. MAKING IT BETTER: THE SECOND GENERATION PSR IN ETHIOPIA

198. This section considers options for improving the approach to PSR in Ethiopia. It takes as its starting points the key observations and lessons that emerged from the descriptions and analysis. It then identifies alternatives or options on the approach, the pros and cons of the alternatives, as well as emerging issues for further studies to improve the PSR in Ethiopia. The recommendations along these lines are essential for the second generation of PSR and are needed in the short run to achieve the goals of the GTP.

- 1) **The design of the PSR “Big Push” approach has been relevant in addressing the reform in the first generation but it has to be improved.** This necessitates refining the objectives and instruments of financing in the design, aligning the reform areas to the value chain of sector development, employment opportunities, and competitiveness. The reform initiative should also expand its scope to the engagement of civil societies and private sector, as well as consider incremental design approaches within reforms.
- 2) Specifically, **the purpose/objective of the next PSR phase, in line with the GTP’s current governance and capacity-building agenda,** and there after needs to be a refined taking into account of the basic strategic issues such as: strengthening the capacity of the state, building transparency and accountability, combating corruption, and strengthening democracy and public participation.
- 3) **From the technical point of view, the approach to PSR, which is in built in PSCAP, is a model that can be carried forward into the next generation of reform.** Any recommendation on whether or not to continue with the approach is dependent on the answer to the question on how the integrated PSCAP approach has worked or not. While some see PSCAP’s approach as unwieldy, in practice it has proved effective, flexible, and relatively efficient. So on balance, the pattern of PSR development in Ethiopia has been promising for continuity.
- 4) **It is necessary to ensure that the government has continued political ownership to implement reforms in packages, and solicit pooled donor support for the PSR.** The government must express its interest to implement reforms in packages and sequences rather than focusing on specific areas too long. In Ethiopia, after the initial stages of a PSR, leaders need to propose ways to sustain and continue reform implementations. Some of the actions to create an environment for ownership by stakeholders could be: consultation and negotiation through institutionalized arrangement, communication, regaining support to buy-in ideas when enthusiasm starts to wane, considering the demands of the stakeholders at the grassroots, and showing the benefit and detriment of the approach in meeting governance goals effectively. One of the mechanisms the government and donors could mutually use to verify outcomes of governance is through an integrated reform implementation approach. Ethiopia’s PSR is likely to be facilitated parallel to the existence of rapid and sustained growth, democratization in a developmental state, and overturning fiscal crisis and in the processes of growing global economic integration.

PSR projects require a certain level of political stability and continuity, and sustained commitment over periods from the cabinet, the Prime Minister and MOFED. If the ministry charged with implementing the reforms comes across as being inert or having lack of cooperation from parallel counterpart agencies, the situation will often require cabinet or the specified minister to demonstrate the importance of the reform, and to guarantee consequences for hindering the PSR.

- 5) **In supporting PSR, little change is needed to donor behavior, assuming that support to the next generation of reform continues in a similar way with modification.** Hence, donors need to

continue their engagement in the next generation of reforms, in an integrated program designed in partnership with the government of Ethiopia. Donors have used pooled funding arrangements with government bodies and executing agents over the relatively long time span of the program (some eight years). This recognizes that the reforms being attempted take time. Rolling out reform interventions should be consistent and aligned with government long-term implementation strategy and urgency.

Regarding the socio-political situation, the recommendation for the next generation of reform, is to continue to align with the vision of government, but to allow for some “ground truthing” to ensure that any issues raised around the use of reform programs for party political ends can be tested, and either proved or disproved. The reform is clearly a political program in its nature. It is, quite overtly, a means of implementing a political vision of democratization. It is only when these reforms become an overt political party (establishing or maintaining networks of patronage or overtly stifling political opposition) that donor partners have valid cause for concern. Some mention distortions and inconsistencies in pursuing BPR, BSC, and mass training. Evidence to support this view with regard to Ethiopia is, to say the least, thin or fragmented in time.

- 6) **The “Big Push” approach of the PSR has greatly advanced transformation, ensured a uniformity of vision across the country and attempted to address a broad agenda than the fragmented/stand-alone approaches** that would not have raised the demand for the reform. It has rapidly entrenched institutional arrangements, laws, systems, structures, and also brought a unified structure that regions can adapt to fit their own emerging needs. The reform has capacitated staff; however, it was more supply driven in order to fulfill the critical mass capacity gaps. At present, public institutions lacked skilled staff due to turnover staff/lack of incentives in all agencies and this puts the sustainability of the reform at risk.

Therefore, considering the opportunities and challenges, is necessary to reconsider the following **three alternatives** when selecting a system of PSRs for the next generation:

- i. Decentralize, deepen, and enhance the role of regions and local governments by legitimizing their decision making power and providing financial resources to carry out reforms. Responsibility for implementation should also fall upon local governments. Down streaming issues could be entertained, for example, through piloting financial transfers to local levels or by capturing local needs through contractual agreement with a region or higher order hierarchical city.
 - ii. Continue with the existing whole government approach of the PSR, but modify it. For example, with a sequenced and incremental type system within reform areas. However this might limit the progress at regional level because it requires the clearance from federal supervising bodies.
 - iii. The third—and contrary—alternative is to recentralize some of the reform elements at federal level and/or focus on a few regions at a time to avoid the “Big Push” approach. But this might have negative impact on the effectiveness and pace of the implementation of the reform.
- 7) **The Ethiopian Constitution mandates regional and *woreda* self-governance.** In spite of legitimizing self-rule, remnants of the old order remain in a top-down approach to formulating and implementing government policy reforms. The Constitution is only one dimension and sub-national governments need to decide reform grants to ensure decentralization measures live up the officially stated objectives. Regions depend heavily on federal government at the central for the release of resources, and *woredas* do the same with regional governments. This leaves very

little room for genuine or meaningful democratic decentralization that can be expected to improve service delivery as well as enhance empowerment at the grassroots level. There is the need for constitutional status for local governments for long-term viability.

- 8) **Ethiopia has built a certain level of capacity through its wholesale and top-down approach to attain equity among regions.** Ethiopia's goal to become a middle-income country in the next decade requires the federal government to operate at even higher levels for balanced regional development and overall growth in economic space. The regions can identify and maximize their competitive advantages, using regional development strategies that promote specialization and growth corridors. Hence, the PSR should be aimed at growth and balanced development, especially to the value chains and the goals of creating competitiveness and employment opportunities in the regions.
- 9) **Performance-based grants should be established alongside the equity-based grants.** Most countries allocate most funds through specific-purpose grants rather than a general-purpose grant. Performance-based grants should be considered an important part of the reform agenda. As a system the sustainability of decentralization has not been given due attention until now because of equity consideration for federal states. The Fiscal Federalism Strategy of Ethiopia indicates the relevance of the specific purpose transfer in the fiscal federalism landscape and the need for further studies. LIG was not scaled up in a timely fashion and suffered from shortage of funds, unclear grant arrangement and formula, as well as complex compliance system. Because LIG is (assumedly) abolished, local governments are left without support in exercising their autonomy and participatory planning process due to a shortage in resources for capital investment. The ULGDP grant is provided only to a few cities, although regions have started to support other cities. Therefore, developing a conditional grant system by enhancing utilization capacities of local governments is a requirement for competitive and performance-based development.
- 10) **There should be complementarities among PSR programs (PSCAP, PBS, ULGDP etc.).** For instance, ULGDP and PSCAP already complement each other in grants for investment and capacity building, and responding to the priorities at the local level. Among others, complementarities of reform instruments help to maximize impacts on service delivery, governance and democratization, as well as increase cost effectiveness. Specifying shared measurements and establishing platforms for consultation are also helpful for partnering. Further complementarities could be achieved on the following issues:
 - a) PSR work areas are identified to achieve the basic principles of public sector management and consist of high-level components for improvements or changes that are different from regular operations or activities. Although the former could eventually be streamlined to the latter. This should be explicit and be communicated within projects and programs. Some projects, for instance, may consider providing routine training, regular reporting, and providing specific service regularly as reform components.
 - b) It is possible to redefine projects' objective indicators and intermediate outcome indicators for each PSR component (for instance PSCAP and PBS) in such a way that their initiatives will support each other towards a common goal. In such a situation, the PSCAP or PBS project could not be overloaded with a wide and unmanageable range of activities.
 - c) The government or donor partners should look into the existing, unnecessarily repetitive, reform projects or components. It is essential to avoid overlaps within a reform and between reforms by placing it in an appropriate cluster of reform and

institutions. Some overlaps exist, for example between GGP, CSRP, and PBS on social accountability components.

- d) A comprehensive framework could be developed for identifying complementarities, linkages, harmonization, sequencing and phasing of reforms, as well as for getting the maximum value from crosscutting PSR components. It is helpful to specify shared measurements and establish platforms for consultation.
- 11) **The decentralization reform should be examined by comparing the *de jure* and *de facto* situations.** While the institutional structure and the principles are in place, the reality on the ground and the continuity of decentralization requires further assessment.
- 12) **The basic pay must be improved and a reward system, which is now drafted (the incentive guideline), should be approved and executed for smooth implementation of PSR.** Drawing from the pay-reform experience of countries that managed to reverse trends of declining real pay in the public service, in drafting the guideline, it is believed to include following points and is also worth considering for consecutive works in the future:
- As pay and incentives problems facing the public sector had persisted over a long period of time, these problems could not be solved all at once, with a singular instance of salary adjustment. Addressing these problems required a program to adjust pay in an affordable, sustainable, and systematic manner over a period of time.
 - Adopting consistent and comprehensive pay reforms that systematically raised pay for the core professional, technical, and management personnel in public service, which is a prerequisite for improving public service performance.
 - Given tight national budgets, creating adequate fiscal space to enhance pay in an affordable and sustain manner is required to finance the pay reform effort.
 - Rationalizing the compensation structure, through the consolidation of remunerative allowances into basic salaries, resulting in a salary structure where allowances do not feature prominently.
 - Rationalizing the job grade structure to remove anomalies, resulting in improved links between pay and performance.
- 13) **An integrated capacity building approach to the public financial management initiatives and sustainability of implementations are important factors for success.** The need to improve performances and bring more efficient operation, budget utilization in the sector requires institutionalizing the working systems, incentives, training of manpower in reform area, replacing manual paper work with IT and ensuring its continued maintenance, and investing more financial resources. Among others, more refined work is needed to roll out IFMIS, as well as to link the program budgeting exercise to the GTP, medium term expenditure framework, BPR, BSC etc.
- 14) **The following risks associated with PSR needs attention in the future implementation process.** They are:
- Low basic pay with growing inflation, delay of implementing individual employee performance measurement, lack of incentives and high staff turnover, low productivity, and underperformance.
 - Financing of recurrent budget through PBS could maximize dependency and creates problem of sustainability.
 - Sustainability of PSR will require actions for serving the public and maintaining or improving service standards, as well as discharging missions. Sustainability of specific

reforms implementation such as BPR and service delivery improvement is equally important for sustainability of PSR as a whole. The citizens will have a growing demand for efficient and responsive service delivery. The service delivery could deteriorate unless reform activities such as legal, institutional frameworks, manuals, guidelines, the structure, and the human element (including inputs such as IT equipment and software) are well placed and enhanced.

- Slow progress in rolling out reform activities, resulting dissatisfaction by some of the beneficiaries.
- Macro level revenue limitations for financing governance/reform initiatives, due to ambitious plans and priorities for infrastructure and economic development

15) Issues that emerged from the analysis and that need further study are the following:

- Stocktaking of the extent of the progress of state transformation.
- Assessing critical aspects of governance indicators.
- Macro fiscal implications of pay and incentive mechanisms.
- Assessment of the realities of the decentralization efforts.
- A specific-purpose grants system.
- Attribution of reforms and assessment of complementary/overlapping of reforms.
- A framework of integrated regional development planning.

199. In conclusion, **the Ethiopian public sector reform, in general, and the design of specific reform areas, in particular, followed specific orientations that provided important lessons of experience as the first generation initiative for state transformation in the last eight years (2005-2012).** Most of the reform priorities and approaches were relevant in the context of their temporal and spatial dimensions. In some areas, the integrated reform components are much better designed and performed compared to the approaches in some developing countries. The government commitments and the learning-by-doing exercises, as well as the alignment and harmonization process were major factors for sustaining the reform. Moreover, the existence of powerful focal institutions (Ministry in charge of Capacity Building) and matrix institutional arrangement both at federal and regional levels have been relevant factor for the success of the public sector reform and capacity building efforts. As a result, promising achievements are recorded in a number of reform areas that contributed to improved service delivery, governance and accountability. On the other hand, some reform undertakings such as governance effectiveness, decentralization, performance and pay, revenue generations, financing of recurrent expenditure, and reform programs, as well as rolling out reforms demand priori attention and strategies.

200. **However, considering the existing situations, there is a need to build-up amenable and coherent system for carrying out public sector or governance reform effectively.** The government, with its intent of commitment, could modify and deepen the existing approach to the needs of the second generation in Ethiopia by taking into account the design and process features, including those that emerge during implementation such as redefinitions and sequencing of the design. The second generation should place emphasis on complementarities of reforms, and sub-national government capacities, as well as demand and supply side link chains. Donor supports to PSR needs to reflect key dimensions of country context more explicitly in operational design, but in intermediate and more challenging contexts. Further analysis provides a feasible sketch in using limited windows of opportunities, such as citizen demand for public sector and governance reforms. In such less propitious situations, it is important to address issues of operational feasibility, “ground truthing” and monitoring reform impact activities as a short- term response.

201. Supported with this ESW analysis and further research works mentioned, the World Bank, other donor partners and policy makers could develop ideas and instruments for revitalizing future PSR. Based on the experiences in the report, the approach to PSR contains features that are geared, or at least relevant, to answering typical governance and democratic process constraints, state capacities; reflecting a coherent vision of reform policies and institutional set-ups; placing effective top-down performance disciplines or bottom-up accountability mechanisms; encouraging incentives for performance; as well as enhancing the enabling environments for sub-national level anchored solutions and capacities. It also implies enhancing partnership actions with stakeholders on factors that improve the developmental state-governance, democratization, quality and accessibility modalities of service delivery and infrastructure development. It is advisable to expand the scope of engagement of civil societies and private sector and link the priorities of PSR to the value chains of sector developments aimed at creating competitiveness and employment opportunities.

ANNEX 1: PSCAP'S RESULT MATRIX AS AT DECEMBER 2011

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>Output Number 1—Strengthened Legal and Policy Framework</p> <p>OUTPUT INDICATORS</p> <ol style="list-style-type: none"> 1. Law reform and revision undertaken and adopted at federal level 2. Number of regions adopting enabling legislation for local authorities 3. Number of regions adopting various tax proclamations (income, excise, turnover tax) <p>CONTRIBUTION OF EACH SUB-PROGRAM TO OUTPUT NUMBER 1</p> <p>Justice System Reform Sub-Program (JSRP)</p> <p>A larger number of laws were drafted and enacted including: i) regional family laws adopted by Somali, Gambella, Benishangul-Gumuz, Oromia and SNNPR; ii) amendments to regional constitutions by Amhara, Gambella, Benishangul-Gumuz and Oromia; iii) over 20 establishment or reestablishment of executive organs in all regions; iv) over five proclamations on the establishment of urban and rural centers and their powers in Amhara, Somali, Dire Dawa; v) over 10 establishment of judiciary administrations including <i>kebele</i> social courts in Amhara, Somali, Dire Dawa, Gambella, Oromia and SNNPR; vi) over 20 proclamations to define legislative procedures for the legislative organs; vii) code of conduct for civil servants, prosecutors, appointed officials or council members; and viii) the proclamation for vital events registration and the criminal procedure laws are drafted (2011).</p> <p>Urban Management Capacity Building Sub-Program (UMCBP)</p> <ul style="list-style-type: none"> • All 11 regions adopted the city/municipal proclamation from a baseline of six regions at the beginning of the PSCAP. • Regulations were issued in land, finance, human resources, and a large number of municipals services. • National and regional urban development strategy and housing policies were developed by federal government and implemented in Amhara, Oromia, SNNPR and Tigray. • Regional Housing Strategies completed and being implemented in the four major regions • Study for the 4 Emerging Regions and Harari. Draft Proclamations completed and given to the regions to review and implement. • Infrastructure Delivery and Financing Strategies and 	<p>Outcome Number 1—Increased Predictability and Adequacy of Financial Resource Flows (In-Year and Across Years)</p> <p>OUTCOME INDICATORS</p> <ol style="list-style-type: none"> 1. Reduced budget variance 2. Reduced federal-regional and regional-local fiscal gaps <p>CONTRIBUTING SUB-PROGRAMS— Civil Service Reform Sub-Program (CSR) and Tax System Reform Sub-Program (TSRP)</p> <p>The <i>Woreda</i> and City Benchmarking Supply Side Survey showed that the jurisdictions that are best performers in having a close match between the planned budget and actual expenditure increased from 55 percent in 2005 to 63 percent in 2008 and to 65 percent in 2010.</p> <p>Overall, the federal to regional transfer has shown annual increment of 22 percent in 08/09, 20 percent in 09/10, 20.4 percent in 2010/11 and 25 percent in 2011/12 Fiscal years.</p> <p>The nationwide TSRP has contributed by increasing the predictability and adequacy of financial resources for service delivery. Tax collection nationwide increased five times between the project's first year and 2011. The total tax collection in 2005, 2008, and 2009 is 12.4 billion, 24 billion and 29 billion respectively. In FY 2010 tax revenue collected increased to EBr. 37.5 billion and in FY 2011 to 58.9 billion.</p> <p>Outcome Number 2—Greater Inclusiveness and Transparency of Planning and Prioritization Processes</p> <p>OUTCOME INDICATORS</p> <ol style="list-style-type: none"> 1. Established practice of participatory budgeting and public reporting on budgets and performance at all levels 2. Regular involvement of civil society in planning and policymaking, budgeting, and review processes <p>CONTRIBUTING SUB-PROGRAMS— District Level Decentralization Sub-Program (DLDP), Civil Service Reform Sub-Program (CSR), Urban Management Capacity Building Sub-Program (UMCBP), and Tax System Reform Sub-Program (TSRP)</p> <p>The key result achieved in implementing the good governance package is the establishment</p>

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>Implementation Plans completed for the four major regions.</p> <ul style="list-style-type: none"> The property registration proclamation was enacted (2011), The urban land development and management policy, along with its capacity development framework, 16 legal frameworks and 19 standards and manuals were developed (2011). <p>District Level Decentralization Sub-Program (DLDP)</p> <ul style="list-style-type: none"> The Ministry of Capacity Building developed the model local government legislative framework. However, only Tigray (Numbers 99/98 and 199/99) and Harari proclaimed the act that determines powers and duties of <i>woredas</i>. Six regions (Amhara, Oromia, Benishangul-Gumuz, SNNPR, Somali and Gambella) completed the draft act and are awaiting approval of the regional council. Afar prepared a manual to determine the functional assignment between region and <i>woredas</i>. <p>Civil Service Reform Sub-Program (CSRP)</p> <ul style="list-style-type: none"> The revised civil service proclamation was enacted and adopted by all regions. A gender-responsive recruitment mechanism is one of the features included in the revised civil servants proclamation and provides for affirmative action toward females to join the civil service. The financial laws, regulations, and manuals were rolled out at the federal level and to all regions. The cash management directive and procurement law were implemented at all levels—federal, regional, zonal, and <i>woreda</i>. The business process reengineering (BPR) guideline was approved by the Council of Ministers and has become operational at all levels of government to streamline work processes. <p>Tax System Reform Sub-Program (TSRP)</p> <ul style="list-style-type: none"> All regions adopted the federal income tax and turnover tax proclamation. Agricultural income tax was issued in ten regions. Afar put land policy as a pre-requisite because land is communal property and the draft land policy was submitted to parliament. A large number of tax laws were issued by both federal and regional governments. <p>Information and Communication Technology (ICT) Development/production of:</p> <ul style="list-style-type: none"> The e-Government strategy document; ICT community development strategy; 	<p>of key institutional focal points such as the expanded <i>Kebele</i> Council, <i>Kebele</i> Manager and Planning and Inspection Teams who will ensure participation, inclusion, effective service delivery and accountability.</p> <p>The 2010 <i>Woreda</i> and City Benchmarking Survey (Citizen’s Report Card) showed that 53 percent of the respondents are consulted in prioritization of development needs and 48 percent on quality of public service. However these proportions show decline of five percent related to consultation on development needs and two percent on quality of public service since the 2008 survey. On the other hand, citizens who are personally consulted on development issues increased from 17 percent to 20 percent.</p> <p>47 percent of the civil society organizations responded in the affirmative on being consulted. In addition, the proportion of people who know that Council Meetings are open to the public increased from 11 percent in 2008 to 32 percent in 2011.</p> <p>Outcome Number 3—Enhanced Fiscal Autonomy and Improved Revenue Administration at all Levels</p> <p>OUTCOME INDICATORS</p> <ol style="list-style-type: none"> Increased own revenue and unconditional transfers as a share of total expenditures at sub-national levels Increased tax efforts at all levels <p>CONTRIBUTING SUB-PROGRAMS— District Level Decentralization Sub-Program (DLDP), Urban Management Capacity Building Sub-Program (UMCBP), Tax System Reform Sub-Program (TSRP), and Information and Communication Technology (ICT)</p> <p>Tax collection by federal and regional revenue offices has increased five times between the project’s first year and 2011. Tax to GDP ratio has increased to 11.3 and 11.5 in 2010 and 2011 after consecutive reduction for three years.</p> <p>Outcome Number 4—Enhanced Incentive Environment for Public Servant</p> <p>OUTCOME INDICATORS</p> <ol style="list-style-type: none"> The extent to which performance evaluation and reward has been introduced across the civil service A comparison between consolidated civil

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<ul style="list-style-type: none"> • The architectural framework for e-Government; • ICT human resource development strategy; • Guidelines for public key infrastructure; • ICT research and development guideline; • Enterprise architecture framework 	<p>service employment packages (pay, terms and conditions, leave entitlement, allowances, etc.) and those in other sectors</p> <p>3. Recruitment and retention of categories of staff with specific skills and experience</p> <p>CONTRIBUTING SUB-PROGRAMS— Civil Service Reform Sub-Program (CSRP), District Level Decentralization Sub-Program (DLDP), and Urban Management Capacity Building Sub-Program (UMCBP)</p> <p>The performance management system known as the Balanced Score Card (BSC) is being implemented in more and more offices in the last five months. At federal level, the full use of the system has increased from 17 to 22 offices and Tigray is now at an advanced stage of preparation, in addition to the three big regions and A.A. that are already using the system. The others are at different stages of preparation.</p> <p>The 2010 <i>Woreda</i> and City Benchmarking Survey showed that after considerable decline between 2005 and 2008, local jurisdictions made improvements in efforts to modernize their human resource management and adequacy of staffing in the past two-year period. The jurisdictions that are issuing job descriptions or regularly evaluating the performance of their employees increased from 46 percent in 2008 to 78 percent in 2010. Similarly, the percentage of jurisdictions not affected by vacant approved posts increased from 20 percent in 2008 to 71 percent in 2010. The BPR has actually increased the number of staff at the <i>Woreda</i> level.</p>
<p>Output Number 2—Restructuring and Performance Improvements</p> <p>OUTPUT INDICATORS</p> <ol style="list-style-type: none"> 1. Percentage of ministries, agencies and bureaus (MABs), at federal level and in each region, initiating restructuring and performance improvement 2. Percentage of <i>woredas</i> and municipalities undergoing restructuring 3. Percentage of courts at each level initiating performance improvement 4. Number of regions adopting sector-specific automated IT solutions <p>CONTRIBUTION OF EACH SUB-PROGRAM TO OUTPUT NUMBER 2</p> <p>Civil Service Reform Sub-Program (CSRP), District Level Decentralization Sub-Program (DLDP),</p> <p>The Business process reengineering (BPR) guideline was approved by the Council of Ministers. The BPR report from each institution documents the service standard for each core service and shows significant reduction in processing time. Virtually all offices at all level of government (Federal, Regional, and Local) are conducting BPR and are at different stages of implementation. Processing time for tax decreased from 11 minutes to 7 and for opening case files in Supreme Courts from 15 to 7 minutes.</p>	<p>Outcome Number 5—Improved Quality and Efficiency of Operations</p> <p>OUTCOME INDICATORS</p> <ol style="list-style-type: none"> 1. Improved service levels in terms of access, responsiveness and cost efficiency in priority sectors 2. Reduced unit costs and processing time for essential rural, urban, social, and legal services in priority sectors <p>CONTRIBUTING SUB-PROGRAMS— Civil Service Reform Sub-Program (CSRP), District Level Decentralization Sub-Program (DLDP), Urban Management Capacity Building Sub-Program (UMCBP), Tax System Reform Sub-Program (TSRP), Justice System Reform Sub-Program (JSRP), and Information and Communication</p>

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<p>Tax System Reform Sub-Program</p> <p>The Ministry of Revenue, Federal Inland Revenue Authority (FIRA) and the Ethiopia Customs Authority (ECUA) conducted a comprehensive BPR that looked thoroughly at the three organizations to create one seamless organization and bring about institutional transformation. FIRA, ECUA and Ministry of Revenue were merged into one office (Ethiopian Revenue and Customs Authority) in June 2008. Regional tax administration offices were separately organized to incorporate nationally similar functions except in Tigray and Afar regions where they still function under the Ministry of Finance and Economic Development Bureaus. BPR has resulted in significant reduction in processing of tax and customs-related services.</p> <p>Urban Management Capacity Building Sub-Program (UMCBP)</p> <ul style="list-style-type: none"> • Situation Analysis completed in 18 towns. • Restructuring and Performance Improvement Plans prepared for 18 towns and some being implemented through PSCAP as from EFY1999. • Organizational structures established in 19 towns in the four major regions, Harar, Dire Dawa and Addis Ababa. • Personnel management manuals and systems developed and implemented in the four major regions, Addis Ababa and Dire Dawa. • Computerized Financial Management and Accounting System developed and implemented in Addis Ababa and Dire Dawa • Prototype Computerized Financial Management and Accounting System developed for other towns and to be implemented through PSCAP. • Sixteen service delivery manuals prepared and other operational manuals/handbooks prepared, ready for publication, dissemination, and implementation at city level. • Infrastructure Assessment and Infrastructure Inventories completed in 18 towns. • Five year municipal infrastructure investment plans (MIIPs) prepared for 18 towns <p>Justice System Reform Sub-Program (JSRP)</p> <ul style="list-style-type: none"> • The court reform program was rolled out to all the courts at all tiers of government. As a result, the clearance rate of cases rose and continued to stay above 80 percent in federal and sub-national courts. At the Supreme Court level, Harari, Gambella and Tigray have no backlog; Amhara and Benishangul-Gumuz have only one case pending. Oromia and the federal Supreme Court have still backlogs. At the 	<p>Technology (ICT)</p> <p>The <i>Woreda</i> and City Benchmarking Supply Side Survey revealed that the level of access to basic services improved immensely when compared to the survey done in 2005. The jurisdictions that were graded as best performers in 2005 was only 25 percent compared to 88 percent in 2011, and the overall results suggest that in more and more jurisdictions the public is having better access to services considered basic. The Citizen’s Report Card also shows the following:</p> <ul style="list-style-type: none"> • Citizens using government health facilities increased from 50 percent to 84 percent in urban and from 77 percent to 94 percent in rural areas in 2008 vs. 2011. Overall satisfaction with the health services increased from 62 percent to 70 percent while households satisfied with the waiting time, attitudes of the medical staff, and availability of drugs increased from 66 percent, 66 percent, and 53 percent in 2008 to 81 percent, 74 percent and 54 percent in 2011 respectively. • Overall satisfaction with primary education service increased from 84 percent in 2008 to 94 percent in 2011. • Satisfaction with the agricultural extension increased from 90 percent in 2008 to 94 percent in 2011. • Although, there is no clear evidence of growing satisfaction for water supply (61 percent in 2008 to 58 percent in 2011), there has been a 16 percent fall (from 26 percent to 10 percent) in the proportion reliant on unprotected water sources over the past 18 months. • Based on the core indicators for processing time, the time for tax is reduced from 11 minutes to 7 and for opening case files in Supreme courts from 15 to 7 minutes. <p>Outcome Number 6—Improved Transparency and Accountability</p> <p>OUTCOME INDICATORS</p> <ol style="list-style-type: none"> 1. Reduced incidence of corruption and arbitrariness in rule enforcement (as judged by economic agents) 2. Increased access to justice, recourse and redress 3. Enhanced independence of the judiciary 4. Increased access to government

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<p>high court and first instance court level, Tigray, Benishangul-Gumuz and Amhara had no cases pending for more than one year. “Real-time dispatch” has been put in place, thus allowing the sentences to be rendered within one day, in cases of clear identification of the crime and culprit in petty crimes. The introduction of one-step/one-counter to file a case and the introduction of web-based services for opening a file at the Federal Supreme Court have reduced the cost of litigation and improved access to justice significantly.</p> <ul style="list-style-type: none"> The House of People’s Representatives adopted new parliamentary procedures and code of conduct for its members. A revised proclamation for law-making procedures, including the process of three-step reading and public hearings, was introduced in Oromia, Tigray, and Benishangul-Gumuz. <p>Civil Service vice Reform Sub-Program (CSR)</p> <p>All budgetary institutions, regions and city administrations have adopted the integrated budget and expenditure management system (IBEX). The baseline for adoption of IBEX was only one region (Amhara) at the start of the project and now all regions adopted the system. In the advanced regions (Amhara, Tigray, SNNPR and Oromia), Addis Ababa, and Afar the system is in place at regional levels, zonal levels and selected <i>woredas</i>. In the other three developing regions (Somali, Gambella and Benishangul Gumuz), the system was implemented only at the Bureau of Finance and Economic Development Office. IBEX was preceded by Budget Information System (BIS) and Budget, Disbursement and Accounts (BDA) in many of the regions. The system has improved the preparation of accurate and timely financial reports, enhanced the reliability of the financial management, and minimized the manual work.</p> <p>Information and Communication Technology (ICT),</p> <ul style="list-style-type: none"> The biggest investment in local jurisdictions was WoredaNet. WoredaNet, initiated by the government, is currently operational in 600 <i>woredas</i>, with an additional 178 newly established <i>woredas</i> being supported by PSCAP to obtain the necessary infrastructure and training to make them operational. The use of WoredaNet has been instrumental in tackling the problem of information exchange vertically and horizontally throughout the different levels of administrative structures. It is also serving as a video conferencing facility for public institutions, a mechanism to conduct court proceedings, training centers, and sometimes as Internet cafés. A number of information systems and application 	<p>information improved</p> <p>CONTRIBUTING SUB-PROGRAMS— Civil Service Reform Sub-Program (CSR), District Level Decentralization Sub-Program (DLDP), Urban Management Capacity Building Sub-Program (UMCBP), Tax System Reform Sub-Program (TSRP), Justice System Reform Sub-Program (JSRP), and Information and Communication Technology (ICT)</p> <p>The <i>Woreda</i> and City Benchmarking Survey (Citizen’s Report Card) shows that households who reported making extra payments outside the legal requirement for any government services in the last year decreased from 4.3 percent in 2008 to 4.1 percent in 2010 and has increased to 6.5 percent in 2011.</p> <p>The recent study on independence, transparency & accountability in Ethiopian judiciary reports that the independence of courts is adequately recognized and protected in the Ethiopian Constitution and the various laws concerning the judiciary. In practice, judicial independence has improved but progress remains to be made in the understanding of, and respect for, the principles of judicial independence both by all judges and by executives.</p> <p>The <i>Woreda</i> and City Benchmarking Supply Side Survey also confirmed that public access to basic information in written form such as budgets, audit reports, strategic plans, tax assessment, and services provided by the jurisdiction has also improved. The demand side citizen’s report card showed that the proportion of people who know about what taxes and fees they are legally required to pay has increased from 60 percent in 2008 to 81 percent in 2011. Citizens who have information on the budget increased from 13 percent in 2008 to 20 percent in 2011 and those who know about the strategic plan also increased from 17 percent in 2008 to 19 percent in 2011.</p>

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<p>were developed. Common administrative applications are also being developed for human resources management information systems, property management, records management, transport fleet management, purchase management, digital documentation and payroll systems.</p> <ul style="list-style-type: none"> • A network master plan for 32 federal institutions is completed. • Online applications (for example online trade registration and licensing, online exam registration and placement) are implemented. • Provision of information on currency exchange, electric bill and 10th and 12th grade results and placement through the mobile phone is launched (8181) • Management information system (MIS) software for different institutions such as Ministry of Transport, National Library and Achieve, and Environment Protection Authority is operational • Connecting offices through Networking is used in more and more regional offices. For instance, in SNNPR 78 percent of the offices are networked, Amhara networked 6 offices, Oromia is signing an agreement to maintain the network for 20 offices— of these 6 were supported by PSCAP, and in Addis Ababa, fax automation is being used in 86 out of 150 office to reduce the cost and time to exchange information between different levels of government. Somali is conducting the study to network its offices as well. <p>Urban Management Capacity Building Sub-Program (UMCBP)</p> <p>The urban land information system is used in many regions.</p> <p>Tax System Reform Sub-Program (TSRP)</p> <p>Computerized tax identification number (TIN) was implemented in all regions. TIN is now complemented with biometric technology that fingerprints taxpayers. As of June 2011, 1. 7 million taxpayers’ information was collected and registered through the biometric system. The Standard Integrated government Tax Administration System (SIGTAS) was implemented in all federal branches and is being rolled out to regions. The tax file management system has been completed in all advanced regions and the two city administrations; ASYCUDA++ was implemented in 20 sites across the nation.</p> <p>Justice System Reform Sub-Program (JSRP)</p> <ul style="list-style-type: none"> • A modern case management system was introduced 	

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<p>at all levels of court (Supreme Court, high court and first instance court) at the federal level, Dire Dawa, SNNPR, and Harari. Amhara, Oromia and Benishangul-Gumuz introduced it at the regional Supreme Court and all their high courts. Benishangul-Gumuz has also introduced it in most of their first instance courts (14/20). Tigray has introduced it at the regional Supreme Court. Gambella hasn't introduced it and there is no information on Addis Ababa.</p> <ul style="list-style-type: none"> • Somali reported improvement in the justice organization's filing and recording system for their personnel, prisoners' records and case flow. Afar put in place an information management system for the justice/prosecutor's office. 	
<p>Output Number 3—Reforms of Expenditure Management System</p> <p>OUTPUT INDICATORS</p> <ol style="list-style-type: none"> 1. Percentage of budgetary institutions at each level implementing medium-term and strategic planning 2. Number of regions adopting new budget structure at all levels 3. Number of regions adopting double-entry, modified cash systems at all levels 4. Percentage of budgetary institutions at each level adopting cash management directives 5. Percentage of budgetary institutions at each level rolling out automated financial systems 6. Procurement legislation adopted and directives issued 7. Accounts and audits backlog reduced at federal and regional levels 8. Percentage of budgetary institutions preparing standardized internal audit reports <p>CONTRIBUTION OF EACH SUB-PROGRAM TO OUTPUT NUMBER 3</p> <p>Civil Service Reform Sub-Program (CSRP)</p> <ul style="list-style-type: none"> • The budget reform, cash management directive and procurement law was implemented at all levels—federal, regional, zonal, and all <i>woredas</i>. Accounts reform was implemented at all levels—federal, regional, zonal, and all <i>woredas</i> of the four relatively advanced regions, Addis Ababa, and Harari. The developing regions also implemented accounts reform at the regional level and in a selected number of <i>woredas</i>. The integrated budget and expenditure management system (IBEX) was implemented in federal institutions and selected <i>woredas</i> of the four relatively advanced regions, 	

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>Addis Ababa, Afar and Harari. The other three developing regions implemented it only at regional Finance and Economic and Development Bureaus. Currently, there are no accounts backlog compared to at least 1-2 years backlog at the beginning of PSCAP. The information on external and internal audit preparation is not complete. Oromia has no audit backlog while federal MoFED, Addis Ababa, SNNPR and Harari have a two-year backlog. Similarly, SNNPR, Tigray and Benishangul-Gumuz reported preparation of the internal audit report at all levels and Gambella in limited offices.</p> <ul style="list-style-type: none"> • In 2010/11, a number of revisions were made to the systems that were in place: i) revision was made to the accounts manual based on the new public finance management, property and program management systems; ii) the procurement manual and training module were amended and a prototype procurement directive was also sent to regions for adoption; and iii) the property management and budget module were also integrated with information management system. • The stock management manual and the training module were also finalized and distributed to federal and regional counterparts for adoption. • The prototype public finance management regulation and directive are sent for adoption by regional governments. • Program budgeting manual was finalized and advanced from pilot testing to full implementation of the system at the federal level. The implementation of the program budgeting at the federal level has now increased from 10 percent to 100 percent in the 2011/12 (2004 EC) budget. • The <i>Woreda</i> and City Benchmarking Supply Side Survey also showed significant improvement. In the survey conducted in 2005, only 30 percent of jurisdictions were rated best performers while the results of the 2010 survey revealed that 85 percent of the jurisdictions have efficiency and comprehensiveness in their accounting and auditing procedures. 	
<p>Output Number 4—Improved Personnel Management Systems in Practice</p> <p>OUTPUT INDICATORS</p> <ol style="list-style-type: none"> 1. Medium-term remuneration policy developed and adopted at all levels 2. Results-Oriented Performance Appraisal System (ROPAS) rolled out at all levels and human resource (HR) guidelines in <i>woredas</i> and municipalities developed and adopted 	

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>3. Percentage of budgetary institutions at each level implementing IT based human resource management (HRM) systems</p> <p>CONTRIBUTION OF EACH SUB-PROGRAM TO OUTPUT NUMBER 4</p> <p>Civil Service Reform Sub-Program (CSRP)</p> <p>The human resources management systems are slowly progressing:</p> <ul style="list-style-type: none"> • The performance management system known as the Balanced Score Card (BSC) is being implemented in more and more offices in the last five months. At federal level, the full use of the system has increased from 17 to 22 offices and Tigray is now at advanced stage of preparation in addition to the three big regions and A.A. that are already using the system. The others are at different stages of preparation. • The study report on the job evaluation and grading (JEG) is being drafted to be submitted to the top management by February 2012; • The Bank has commented on the TOR for the HRMIS • The performance related incentive system document was reviewed in light of the performance management system (BSC) and is sent to Council of Ministers for comments. 	
<p>Output Number 5—Intergovernmental Fiscal and Revenue Mobilization Mechanisms in Place</p> <p>OUTPUT INDICATORS</p> <ol style="list-style-type: none"> 1. Number of regions adopting fiscal decentralization strategies including capital funding mechanisms 2. Number of regions implementing TIN 3. Guidelines developed and implemented for implementing withholding taxes, assessing presumptive tax bases 4. Strengthening and performance improvement of Federal Inland Revenue Authority (FIRA) and Customs <p>CONTRIBUTION OF EACH SUB-PROGRAM TO OUTPUT NUMBER 5</p> <p>Tax System Reform Sub-Program (TSRP)</p> <ul style="list-style-type: none"> • All regions are implementing computerized tax identification numbers (TINs). Based on 2009 data, 434,551 (i.e. 407,584 individuals 13,611 businesses, and 13,356 unidentified) taxpayers were issued TIN certificates. In 2010/11, the computerized tax identification number (TIN) is now complemented with the biometric technologies that use the fingerprint to collect and register taxpayers' information. A total of 1.7 taxpayers' information 	

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>has been collected nationwide using the biometric system.</p> <ul style="list-style-type: none"> • Presumptive taxation guidelines for implementing withholding taxes and assessing presumptive tax bases were developed. A national profitability rate was issued for all types of small businesses as a model for adaptation by all regional states. The standard assessment replaced the estimated assessment, which was prone to corrupt practices. • The Ministry of Revenue, Federal Inland Revenue Authority (FIRA) and the Ethiopia Customs Authority (ECUA) conducted a comprehensive business process reengineering (BPR) that looked thoroughly at the three organizations to create one seamless organization and bring about institutional transformation. FIRA, ECUA and the Ministry of Revenue were merged into one office (Customs and Revenue Authority) in June 2008. Regional tax administration offices were separately organized to incorporate nationally similar functions, except in Tigray and Afar, where they still function under the Ministry of Finance and Economic Development Bureaus. The BPR has resulted in significant reduction in processing of tax and customs related services. For instance, collection/receiving of taxes is now done in less than half an hour compared to several hours before the BPR. <p>Urban Management Capacity Building Sub-Program (UMCBP)</p> <p>Five-year municipal capital investment plans were prepared with the participation of stakeholders. In addition, 19 reforming cities produced a three-year investment plan.</p> <p>District Level Decentralization Sub-Program (DLDP)</p> <ul style="list-style-type: none"> • Specific purpose grants for capital investments were introduced from the federal level to 51 pilot <i>woredas</i> in the four relatively advanced regions and Benishangul–Gumuz. • The model fiscal transfer formula for both sedentary and pastoral-based regions was developed by the Ministry of Capacity Building. Six regions (Amhara, SNNPR, Benishangul-Gumuz, Somali, Oromia and Afar) are using the transfer formula developed by in-house experts. 	
<p>Output Number 6–Vertical Accountability Mechanisms Established</p> <p>OUTPUT INDICATOR</p> <p>1. Service standards for urban and other essential services developed and established at all levels</p> <p>CONTRIBUTION OF EACH SUB-PROGRAM TO OUTPUT</p>	

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>NUMBER 6</p> <p>District Level Decentralization Sub-Program (DLDP)</p> <p>The <i>woreda</i> minimum standard service indicators and reporting mechanism was developed by the Ministry of Capacity Building for adoption by regions. Tigray implemented at regional sector bureaus and service institutions and SNNPR in 134 <i>woredas</i> and 13 zones. Amhara, Somali and Oromia completed the study. The four relatively advanced regions are using BPR to also set service standards.</p> <p>Civil Service Reform Sub-Program (CSRP)</p> <ul style="list-style-type: none"> • All offices implementing the BPR have set service standards and required documentation for each service and these are posted in all offices. For instance, in 2011, SNNPR, 88 percent of the court cases are disposed within the two months standard set by the courts. Similarly, the quality of justice has also improved with 92 percent of the cases not requiring reversal of the lower courts judgment. Similarly, Amhara has reported disposing 90 percent of the cases in three months. • Consultation / validation workshop was conducted on the draft Citizens and Civil Service Charter with sectors and training on the development and implementation of citizen’s charter is also included in the action plan for 2011/12. 	
<p>Output Number 7–Horizontal Accountability Mechanisms (or Checks and Balances) Established</p> <p>OUTPUT INDICATORS</p> <ol style="list-style-type: none"> 1. Number of regions implementing guidelines for citizen participation at the <i>woreda</i> and municipal levels 2. Percentage of courts at each level undergoing performance improvement 3. Enhanced independence and efficiency of judiciary 4. Judges and lawyers trained <p>CONTRIBUTION OF EACH SUB-PROGRAM TO OUTPUT NUMBER 7</p> <p>District Level Decentralization Sub-Program (DLDP)</p> <ul style="list-style-type: none"> • Most regions adopted the framework for grassroots participation. • All regions implementing the good governance package have strengthened participation by establishing the following key institutional focal points for participation. i) <i>Kebele</i> Managers: These are lower level professionals hired to coordinate and mobilize resources for effective service delivery. They provide a one stop shop service to citizens, address requests and complaints, present issues and complaints beyond his capacity to the <i>Kebele</i> 	

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>Council or administration for decision, compiles and makes available <i>kebele</i> data, consolidates <i>kebele</i> plan in collaboration with plan experts, and mobilizes people and resources as needed. ii) <i>Kebele</i> Supervision and Inspection Team: The team report to the <i>Kebele</i> Council and has 9 members consisting 2 members from youth, 2 members from women associations and the other 5 from voting and non-voting <i>Kebele</i> Council members. The team is required to review and report whether plans are prepared in a participatory manner and activities are implemented according to plan using the right procedures and in a fair and transparent manners. iii) <i>Woreda</i> Planning, Supervision and Inspection Team: The team reports to the Bureau of Finance and Economic Development and has 5 members – 2 senior experts, 2 experts and secretary. The two main responsibilities are to prepare the <i>woreda's</i> own plan and supervise its implementation as well as support the <i>Kebele</i> Supervision and Inspection teams within the <i>Woreda</i>.</p> <p>Urban Management Capacity Building Sub-Program (UMCBP)</p> <p>The Ministry of Urban Management developed the framework for public participation.</p> <p>Justice System Reform Sub-Program (JSRP)</p> <ul style="list-style-type: none"> • The court reform program is rolled out to the three levels of courts at federal, regional and <i>woreda</i> first instance courts. The reforms include improving the records and case flow management systems, the transcribing and recording systems, and access to case information. The courts are using different mechanisms to enhance access to justice information. Information Counters are established in Supreme and high courts and are also rolled out to <i>Woreda</i> Courts to provide case related information; a wide range of information about the courts is provided including court judgments and proclamations on websites, touch screens and toll free numbers (992), legal awareness to the public are provided in different media; Ethiopian journal of legal education is disseminated to government, non-government and universities to encourage legal research and exchange of good ideas. • The recent study on independence, transparency and accountability in the Ethiopian judiciary reports that the independence of courts is adequately recognized and protected in the Ethiopian Constitution and the various laws concerning the judiciary. Significant efforts are exerted through short- and long-term training to address gaps in understanding and respect for the principles of 	

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>judicial independence. This year the justice system reform focused on reforming the legal education to produce qualified legal professionals. Assessment was performed on the entire curriculum and 16 out of 67 courses were found to be below standard. Of these, five, namely, the Law of Criminal Procedure, Interdisciplinary II, Law of Non-profit Association, Electoral Law and Administrative Contracts were upgraded and their textbooks will be ready for next year. The others are also at different stages of revision and are expected to be completed in the next few months. Manuals to administer the mandatory exit exams and apprenticeship were developed and are being enforced for all legal students.</p> <ul style="list-style-type: none"> • The legal education reform is complemented through focused short-term training of both judges and court supporting staff. The training aspect of the judicial reform has moved forward significantly. Over 22,000 judges were trained during short- and long-term professional training and over 2,000 support staff was trained for both professional skill upgrading and on-the-job training. • The independent review of the good governance package (GGP) has established that the rolling out of GGP was accompanied by creating and/or strengthening pertinent structures to ensure institutional preparedness notable among which are various <i>kebele</i> and <i>woreda</i> level institutional arrangements that include establishing <i>woreda</i> planning and supervision offices, expanding the number of <i>kebele</i> council members to at least 200 in order to ensure wider representation in the grassroots assemblies, reorganizing grassroots executive councils that are replaced by cabinets spearheading <i>kebele</i> administrations, downsizing the number of the previous dozens of <i>kebele</i> level committees to four major committees charged with the task of dealing with such fields of engagement as development, education and training, health, and justice and administration affairs. New institutional set-ups that did not previously exist were also created for expediting the scheme. These included the deployment of trained <i>kebele</i> Managers/focal persons designated as fulltime local government employees, <i>kebele</i> inspection and supervision teams charged with the responsibility of monitoring and evaluation, <i>kebele</i> social courts, and complaint handling units. • ICT is increasingly being used to enhance citizen's access to government information and services. Community centers (68) are established by the federal ICT sub-program as future access points to government services, toll free call centers (888) 	

PSCAP Overall Outputs Output Indicators and Status	PSCAP Overall Outcomes Outcome Indicators and Status
<p>increased from 10 to 12 at federal and Oromia offices in the last 6 months and this is being expanded to other regions. Users of the toll free call center increased in the last two quarters from 35K to 76K. Similarly, the National government portal is also providing information to internal and external users.</p> <ul style="list-style-type: none"> • The proclamation for asset and income sources disclosure and registration for public officials was enacted in 2010 and implementation has started at the federal level. An international firm conducted the second corruption survey and a draft report was presented at a workshop. This expected to provide information about corruption hotspots, which will require attention from government. 	

ANNEX 2: DIVISION OF MAJOR POWERS AND FUNCTIONS IN ETHIOPIA'S FEDERAL SYSTEM

Powers and Functions of the Federal	Powers and Functions of Regional States:
<ul style="list-style-type: none"> • Protect and defend the Constitution; • Formulate and implement the country's policies, strategies and plans in respect to overall economic, social and development matters; • Establish and implement national standards and basic policy criteria for public health, education, science, and technology as well as for the protection and preservation of cultural and historical legacies; • Formulate and execute the country's financial, monetary, and foreign investment policies and strategies; • Enact laws for the utilization and conservation of land and other natural resources, historical sites, and objects; • Establish and administer national defense and public security forces as well as a federal police force; • Administer the national bank, print and borrow money, mint coins, regulate foreign exchange and money in circulation; it shall determine by law the conditions and terms under which states can borrow money from internal sources; • Formulate and implement foreign policy; it shall negotiate and ratify international agreements; • Be responsible for the development, administration and regulation of air, rail, waterways and sea transport and major roads linking two or more states, as well as for postal and telecommunication services; • Levy taxes and collect duties on revenue sources reserved to the federal government; shall draw up, approve, and administer the federal government's budget; • Determine and administer the utilization of the waters or rivers and lakes linking two or more states or crossing the boundaries of the national territorial jurisdiction; 	<ul style="list-style-type: none"> • Establish a state administration that best advances self-government, a democratic order based on the rule of law; to protect and defend the federal constitution; • Enact and execute the state constitution and other laws; • Formulate and execute economic, social and development policies, strategies and plans of the state; • Administer land and other natural resources in accordance with federal laws; • Levy and collect taxes and duties on revenue sources reserved to the states and to draw up and administer the state budget; • Enact and enforce laws on the state civil service and their condition of work; in the implementation of this responsibility it shall ensure that educational, training, and experience requirements for any job, title, or position approximate national standards; • Establish and administer a state police force, and to maintain public order and peace within the state.

- Regulate interstate and foreign commerce;
- Administer and expand all federally funded institutions that provide services to two or more states;
- Deploy, at the request of a state administration, federal defense forces to arrest a deteriorating security situation within the requesting state when its authorities are unable to control it;
- Enact, in order to give practical effect to political rights provided for in this Constitution, all necessary laws governing political parties and elections;
- Has the power to declare and to lift national state of emergency and states of emergencies limited to certain parts of the country;
- Determine matters relating to nationality;
- Determine and administer all matters relating to immigration, the granting of passports, entry into and exit from the country, refugees and asylum;
- Patent inventions and protect copyrights;
- Establish uniform standards of measurement and calendar;
- Enact laws regulating the possession and bearing of arms.

Source: the Constitution of the Federal Republic of Ethiopia

Powers and functions of <i>woreda</i> (district) administrations include:	Powers and functions of <i>kebele</i> (sub district) administrations include:
<ul style="list-style-type: none"> • Prepare and implement development plans and programs; • Provide public services • Maintain law and order; • Prepare and administer budget including transfers from the regional government that come in the form of block grants; • Assess and collect local taxes; • Maintain lower-grade rural roads; • Direct agricultural development activities; • Administer and protect natural resources; • Administer the <i>woreda</i> civil service 	<ul style="list-style-type: none"> • Prepare approve <i>kebele</i> plan • Follow up execution of <i>kebele</i> plan • Carry out plans and directives issued by the <i>woreda</i> council and its executive committee; • Make additional plans of benefit to the <i>kebele</i> residents; • Mobilize <i>kebele</i> residents for development and for protection of natural resources; • Prepare detailed implementation programs for social and economic programs issued by higher-level authorities; • Issue social regulations specifically applicable to the <i>kebele</i>, which do not contradict those drawn up by higher councils and their executive committees;

Powers and functions of <i>woreda</i> (district) administrations include:	Powers and functions of <i>kebele</i> (sub district) administrations include:
	<ul style="list-style-type: none"> • Elect its cabinet, chairperson, and secretary of the <i>kebele</i> administration; • Appoint/elect judges or arbitration bodies, who are selected by the executive committee, to the social courts; • Determine the work of the executive and other committees; and • Safeguard public safety and law and order.

Source: Revised constitutions of regional states

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