1. Country and Sector Background

Following the fall of the Derg regime in the early 1990s, the EPRDF-coalition Government embarked on a long term strategy of “state transformation” characterized by bold attempts to implement multiple reforms in parallel; the massive scale-up of institutional development efforts across tiers of government; and the deliberate expansion of the scope of public sector capacity building initiatives. Spanning nearly a decade, Ethiopia’s transformation agenda has evolved over three phases in response to growing awareness that pervasive deficits in capacity have hampered the ability of the state to secure the fundamentals of poverty reduction and democratic development such as responsive service delivery, citizen empowerment, and good governance.

2.1 Regionalization and public sector modernization in the mid- to late-1990s

During the 1990s, Ethiopia embarked on a series of unprecedented institutional reforms designed to establish a durable federal state system and further its democratic transition. The first phase of the Government’s state transformation strategy, launched in 1995, involved the creation of a federal state structure based on ethnically delineated regional states responsible for a broad range of the country’s
political, economic, and social objectives including the delivery of essential public services. In accordance with the 1994 Constitution, the Government formally established an intergovernmental fiscal system and initiated the annual transfer of a formula-driven general purpose grant or subsidy to regions, consistent with its policy of “balanced regional progress.” It also undertook a significant redeployment of civil service staff to newly empowered regional executives. As a result, by the late 1990s, staffing levels in regional administrations reached over 320,000, while the size of the federal civil service reached 43,000.

Even as it established a radically new decentralized political and state system, the Government acknowledged the deep institutional constraints on basic functions such as policymaking, service delivery, and regulation. Core public management systems at the federal and regional levels were hampered by outdated civil service legislation and working systems; the absence of a medium-term planning and budgeting framework; ineffective financial and personnel management controls; inadequate civil service wages and inappropriate grading systems; poor capacity for strategic and cabinet-level decision-making; and insufficient focus on modern managerial approaches to service delivery. In recognition of these constraints, the Government embarked on a comprehensive Civil Service Reform Program (CSRP) in 1996. Indicative of Ethiopia’s “first generation” capacity building efforts, the CSRP sought to build a fair, transparent, efficient, effective, and ethical civil service primarily by creating enabling legislation, developing operating systems, and training staff in five key areas: (i) Expenditure Control and Management, (ii) Human Resource Management, (iii) Service Delivery, (iv) Top Management Systems, and (v) Ethics. Successful efforts (for example, budgeting, planning, and accounting reforms) at the federal level were intended to provide prototypes for regional authorities.

The first phase CSRP was implemented over the 1996-2000 period, albeit with intermittent lags due to poor coordination, particularly during the Ethio-Eritrean border conflict. The results of these efforts were mixed. Notable achievements included the development of new legislation (for example, a financial management proclamation, a civil service law, a code of ethics, complaints-handling procedures, and a service delivery policy) as well as operating systems for budgeting, procurement, and some aspects of personnel management such as salary surveys and records management. Development of prototypes for expenditure management including a new budget classification system, a macro-economic fiscal framework and medium-term planning system, a double entry modified cash accounting system, and procurement reforms were also important achievements. Diagnostic work in these areas also progressed. While commendable, these initiatives have had only modest impact in relieving the institutional and capacity constraints within the Ethiopian civil service. There was little evidence of sustained improvement in output performance at the federal or regional levels. Core functions such as medium-term planning, accounting and auditing, and personnel management remain weak. Attempts to develop an affordable, medium-term public sector pay policy were also delayed, and civil servants—despite an across-the-board salary increase in 2001—continued to receive low salaries. Operational efficiency across federal ministries and regional bureaus remained poor. Furthermore, lags in the prototyping phase at the federal level forestalled CSRP implementation in regions and woredas. The considerable opportunity costs in terms of foregone improvements in institutional and service delivery performance at the regional and local levels were widely acknowledged.

Complementary tax policy and administration reforms were also undertaken in line with the Government’s objectives of improving revenue performance to reduce aid dependency and adequately finance the expanding development agenda. The passage and implementation of a Value-Added Tax, as well as the implementation of a Taxpayer Identification Number (TIN) system proceeded. Early efforts in the justice system including the strengthening of court administration and the reform of the penal code and family law sought to deepen implementation of the 1994 Constitution.
Weaknesses in the design of reform initiatives such as an overly top-down approach, inexperience with managing national and international consultants, and funding gaps limited the impact of this first phase of transformation. Implementation delays resulted from the inordinate demands that the border conflict placed on the time of senior officials. Nevertheless, the Government’s generally pragmatic approach to implementing an ambitious regionalization and civil service reform agenda established Ethiopia as a serious state reformer by the late 1990s.

2.2 National capacity building during the post-conflict years

By late 1999, Ethiopia’s early public sector reform experience had significantly deepened its leadership’s appreciation of the role of institutional capacity building in securing the economic and political fundamentals of sustainable poverty reduction. During the conflict period and its immediate aftermath, the Government undertook—in many cases, with the support of donors—a range of in-depth diagnostics and reviews to systematically identify the factors that hindered public sector efficiency, grassroots empowerment, and accountability. These factors, described below, spanned all branches and tiers of government, and helped shaped the scope and scale of the second phase of state transformation.

*Inefficiencies resulted from unpredictable financial management, poor incentives, lack of a strategic or performance orientation.* Unpredictable resource flows have undermined the allocative and operational efficiency the public sector at the federal, regional, and local levels in Ethiopia. The 2003 CFAA identified many of the critical challenges in public financial management that remain at all levels. At the federal level, there is a widely acknowledged need to ensure compliance with the financial calendar; strengthen political ownership of the macroeconomic fiscal framework and its indicative planning figures as a basis for integrated, medium term planning; revitalize federal level efforts to develop a Public Expenditure Program or Medium Term Expenditure Framework (including the proper integration of planning and finance functions in the newly merged MOFED); strengthen internal and external audit systems; improve budget monitoring and fiscal reporting; reconcile fiscal and monetary accounts; and reducing the federal accounts and audit backlogs. Continued leadership of MOFED and coordination with the MCB on these issues will be a key factor in the success of Ethiopia's overall public sector transformation program. Within regions, fiscal decentralization has placed additional pressures on bureaus and woredas to bring their accounts up-to-date, roll out of the new chart of accounts and accounting procedures, develop planning modalities, and strengthen other critical functions such as procurement and auditing. Similar efforts in urban jurisdictions remain part of the unfinished business of municipal reform across four major reforming regions as well as Addis Ababa and Dire Dawa City Administrations. Revenue performance remained weak across tiers of government in part due to insufficient tax autonomy and poor administration.
The incentive framework for personnel also needs to be reformed, given the current needs of the civil service. In terms of modernizing personnel management, the Government has sought to introduce a performance management system through the development of a Results-Oriented Performance Evaluation or ROPE system that seeks to link individual performance with outputs laid out in institution-wide strategic plans. However, the underlying problems of poor incentives across levels of government remain. Attempts to develop an affordable, medium-term public sector pay policy were also delayed, and civil servants at all levels—despite an across-the-board salary increase in 2001—continue to receive low salaries. Personnel rules for woredas including procedures for hiring, firing, transfer, and promotion remain unclear. In municipalities, which sit outside the core civil service system, the Government has identified the need to develop a distinct set of rules for setting wages, hiring and firing municipal workers. Of particular concern is the sustainability of capacity building investments particularly in urban management and ICT, without complementary efforts to retain workers through adequate pay. Anecdotal evidence indicates increasing incidence of migrating talent to the private and NGO sectors, or abroad.

The functions, systems, structures, and work practices of ministries, agencies, and bureaus (MABs) at the federal and regional levels were generally not aligned with Government’s medium-term development priorities and resource constraints. The efficiency and quality of government operations—particularly in strategically important areas such as business licensing, investment promotion, customs, public procurement, and land management—were widely acknowledged to be poor, with the exception of a few islands of performance. In many cases, business processes and work organization were not appropriately automated to enable civil servants to function in a client-oriented, efficient, or transparent manner.

**Empowerment required greater fiscal and administrative autonomy for woredas and municipalities.** Despite the success of regionalization in the mid-1990s, woredas or districts enjoyed little fiscal or administrative autonomy to respond to the local needs of their constituencies. For instance, local level planning and prioritization processes—while consultative—were typically short-circuited by zonal officials, who would vet woreda levels plans in line with regional priorities. Project and program implementation were also burdened by overly centralized procedures for procurement of goods and services, and management of frontline personnel. The resulting inefficiencies were further exacerbated by endemic staffing and skills shortages, unclear accountability relationships, and inadequate organizational structures. By 2001, woredas were still deconcentrated units of regions rather than genuine, democratically elected executives in their own right.

In addition, municipal governments were not adequately integrated into the larger legal and accountability framework of regional governance, and therefore, have been limited—in providing essential services to their residents—by their ability to raise own-source revenues. Personnel shortages have also hampered municipal performance. Ethiopia’s woredas share jurisdictions with municipalities, and require further harmonization of intergovernmental fiscal arrangements to effectively meet service delivery needs of local communities.

**Weak checks and balances on the executive limited accountability, recourse and redress.** The SDPRP emphasizes the centrality of the judiciary and legislative oversight institutions in ensuring the effective implementation of the constitution including expanding the writ of democratic and human rights, as well as the establishment of the legal and regulatory framework for private sector development. Significant institutional weaknesses and capacity deficits are acknowledged across Ethiopia’s justice system including in areas such as lawmaking, law execution and enforcement, the functioning of courts, and the development of the legal professional. Specifically, while progress has been made in reforming laws such as the family, penal, and commercial codes, preparation of the federal administrative procedure, the stock market, the notary public, and the vital events registration laws constitute elements of Ethiopia’s unfinished law reform agenda in 2001. Institutional constraints continued to hinder the Ministry of Justice and regional justice
bureaus from carrying out their basic tasks as they relate to providing legal advice and contributing to law execution and enforcement; ensuring the necessary incentives and training for staff (lawyers and administrative staff); modernizing efficient filing and case management systems; and establishing expectations in terms of operational performance.

Weaknesses in the vertical and horizontal independence of the judiciary resulted from lack of transparency in the selection of judges, unclear organizational structures in the courts, outdated systems and procedures, shortages in trained judges and support staff, and lack of basic infrastructure and facilities. A lack of adequate budgetary resources have also hindered the emergence of a well-functioning judiciary, particularly in first instance courts in the federal system and woreda courts in the regions. Access to justice continues to be limited by supply-side constraints (for example, increasing representation and legal aid, reducing the costs of access, simplifying court documents, establishing alternative dispute resolution mechanisms), and demand-side constraints (for example, increased awareness of constitutional and legal rights, education of the poor about options for recourse and redress). The legal profession remains weak with few qualified lawyers and judges across tiers of government.

**Ethiopia’s homegrown response of national capacity building.** Following political reforms in 2001, the Government responded with the launch of a comprehensive homegrown *National Capacity Building Program* (NCBP) as a multi-sectoral, intergovernmental program response to the capacity building demands of rapid transformation. The national capacity building framework envisages as capacity building system that (i) ensures efficiency and sustainability; (ii) supports the comprehensive development of human resources, organizations, systems and processes as a means of achieving the country's development goals; (iii) affords flexible implementation modalities in order to accommodate the dynamics of institutional change. A super-ministry, the Ministry of Capacity Building, was established in 2001 to provide policy direction, coordination amongst other partner institutions (for example, the Ministries of Finance and Economic Development, Revenue, and Federal Affairs), as well as monitoring and oversight of capacity building efforts. The Ministry, along with its counterpart regional bureaus and woreda offices, is tasked with programming and financing fourteen capacity building subprograms that support the dual SDPRP goals of state and structural transformation (see box 1).

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<th>Box 1: Ethiopia’s National Capacity Building Program (NCBP)</th>
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<td>1. Civil service reform</td>
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<td>2. Justice reform</td>
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<td>3. Tax reform</td>
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<td>4. District-level decentralization</td>
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<td>6. Information and communication technology</td>
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<td>10. Construction sector</td>
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<td>13. Higher education</td>
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<td>14. Civil Society</td>
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Six of these fourteen subprograms directly involve the public sector and comprise (i) a woreda (district level) decentralization program that rapidly transferred delivery responsibilities with substantial fiscal and
administrative authority to rural jurisdictions; (ii) municipal reform efforts designed to restructure and empower urban centers; (iii) reformulated civil service reforms focused increasingly on strengthening the public sector fiduciary framework and service delivery results on the ground; (iv) bold nation-wide initiatives to enhance connectivity and develop e-government applications such as the woreda- and school-net projects; (v) efforts to strengthen formal checks and balances and accountability mechanisms through reform of the justice system including the courts, law making and law enforcement institutions, and the legislative process; and (vi) an ongoing tax systems reform program that continues to align tax policy and administration at the federal and regional level with the demands of Ethiopia’s evolving macro-fiscal policies. In FY2002-03 and FY2003-04, the Government—through its Ministry of Capacity Building, Bureaus of Capacity Building, and other lead institutions—advanced the implementation of all six subprograms. Considerable domestic resources—ETB 108.4 million in FY2002-03 alone—were mobilized through the federal budget to carry out public sector capacity building activities. Progress-to-date is detailed in the first Annual Progress Report on the SDPRP and summarized below along with the Government’s forward looking strategy in each area.

- **Civil service reform.** Since September 2001, a reorganization of Government and the launch of its NCBP has given new impetus to the CSRP. The Government has moved quickly to prepare the CSRP for its “full implementation” across regions and levels of government. Noteworthy initial steps include the establishment of focal points responsible for implementation of reforms across tiers of government; a series of workshops undertaken to sensitize the political leadership and civil servants across the country; and the launch of a “special program” of Performance and Service Delivery Improvement in priority Ministries, Agencies, and Bureaus (MABs) designed to deepen the implementation of performance management. In addition, the CSRP CO is strengthening coordination and change management (from line ministries, regional bureaus, woredas and municipalities); completing prototyping in human resource and expenditure management, and preparing the CSRP for nation-wide scale-up. This approach should promote civil service performance in terms of financial and human resource management, responsiveness to citizens’ needs, strategic prioritization of public resources, efficiency of program implementation, and enhanced accountability.

- **Woreda or district level decentralization.** Within the past year, the Government has moved quickly to remedy these constraints at the woreda level. A radical fiscal and administrative district level decentralization agenda—based on far-reaching constitutional reforms in four regions—has been pursued since the start of FY2001-2002. Decentralization has involved the transfer of a significant portion of the regional subsidies (in some cases, between 60 and 75 percent) to woredas in the form of formula-driven block grants. By implication, the devolution of fiscal management responsibilities requires a massive redeployment of skilled staff, typically from regional bureaus and zonal sections, to woredas to effectively carry out basic public management functions such as budgeting, planning, accounting, and service delivery implementation. Some regions have already taken bold steps towards rationalizing and restructuring what were top-heavy administrative structures. The District-Level Decentralization Program has sought to scale up these efforts through the systematic assignment of revenue and expenditure responsibilities within regions, role restructuring of regional bureaus, transfer of sector-specific functions to woredas, roll-out of basic financial and personnel management systems at the regional and woreda levels, development of fiscal transfer mechanisms and monitoring systems within regions, demarcation and harmonization of woreda and municipal structures, implementation of institutional structures for woredas, and bulk training of local officials, electorates, public servants, and other stakeholders, all of whom are critical to the success of this current wave of “democratic decentralization.”

- **Urban management and development.** Since 2001, Government has become increasingly concerned with the economic and social needs of Ethiopia’s rapidly growing urban population, as well as
the role its cities and towns play in promoting rural development and growth more generally. Historically, municipal governments were not adequately integrated into the larger legal and accountability framework of regional governance, and therefore, have been limited—in providing essential services to their residents—by their ability to raise own-source revenues. Personnel shortages have also hampered municipal performance. Furthermore, the majority of Ethiopia’s woredas share jurisdictions with municipalities, and therefore require a more systematic approach to coordination and harmonization between these two forms of local government. In addressing the needs of municipal government, the Government has prepared an Urban Management Program in the context of the NCBP to establish an appropriate framework for urban government through the development of enabling legislation for municipalities within regions, restructuring and staffing of municipalities, strengthening of planning and management capacity, mobilization of fiscal support from own and other sources to meet investment and recurrent needs, and improvements in land management and basic service delivery. Such efforts in four reforming regions of Amhara, Oromiya, Tigray, and SNNP have been undertaken with assistance from the IDA-financed Capacity Building for Decentralized Service Delivery (CBDSD) Project.

- **Tax systems reform.** Following the Government reorganization in mid-2001, a separate Ministry of Revenues was created and the Tax Reform Taskforce strengthened to ramp up Government’s revenue performance. Efforts that followed under the Tax Systems Reform Program (TSRP) included strengthening of tax policy capacity of the Ministry of Finance and Economic Development (MOFED), overhaul and codification of the income tax law; introduction of presumptive and value-added taxes; adoption of a tax payers identification system; reorganization of the Federal Inland Revenue Authority (FIRA) and its various branches; development and implementation of operational manuals for tax officials and training manuals for taxpayers; and computerization of tax administration at the federal, regional, and local levels. Strengthening of customs administration is also envisaged in the future. Revenue performance since the end of the war (excluding grants) has increased to approximately 14% of GDP and is expected to increase following the recovery after the 2003 drought year.

- **Justice system reform.** While the comprehensive Justice Systems Reform Program is still under development, the Government continued to pursue reform efforts over the 2001-2003 period including a nation-wide baseline assessment of the full range of justice systems institutions, law revision and law reform activities; a second phase of court administration reform including records and case management; the establishment of a judicial in-service training institution; and the roll-out of training for judges.

- **Information technology solutions for e-government.** Several PSCAP subprograms including CSRP, DLDL, UMCBP, and TSRP sought to implement IT-based applications as part of Ethiopia’s broader public sector modernization efforts. While these early applications development efforts continued during the 2001-2003 period, the major initiative of the Government in 2002-2003 was the design and implementation of large scale woreda- and school-based V-SAT networks to provide the backbone for a range of educational and public sector applications. As follow-up to these efforts, the Government has also continued with work on strategic and policy development; training of senior and technical personnel; and upgrading and improvement of facilities.

Despite their rapidly expanding scope and scale, Ethiopia’s public sector capacity building efforts through 2003 have been largely supported by fragmented donor projects and financed in an ad hoc manner. In many cases, direct capacity building support provided to regions has been offset in the general purpose transfers. In addition, concerns related to the degree of transparency in the implementation of capacity building, problems in effectively leveraging global knowledge, as well as the bias towards intensive off-site training activities need to be addressed. Finally, the financing requirements of scaling up each of these above-mentioned subprograms indicated that Treasury resources alone would not suffice; significant
external assistance would be required. The 2001-2003 experience with multiple reform efforts undertaken in parallel demonstrated the importance of exploiting the synergies between subprograms described above; using a flexible mechanism of support that could respond to the rapidly evolving needs of various subprograms; empowering regions and local authorities in setting priorities and achieving results; harmonizing donor support around a single design; and improving coordination across branches and tiers of government.

2.3 Scaling up “state transformation” in 2003 and beyond

In May 2003, the Government responded to above-mentioned challenges by launching the third and most ambitious phase of its state transformation agenda. Specifically, the MCB announced its intention to rapidly scale up support for the six core public sector reform programs as subprograms under a consolidated five-year federal program called the Public Sector Capacity Building Program or PSCAP. The Government’s vision, reflected in its national program document for the PSCAP, was based on three pillars—(i) simultaneous, nation-wide implementation of six subprograms, sequenced in line with regional and local priorities, (ii) alignment of program support with Ethiopia’s public financial management and intergovernmental system, and (iii) harmonization of the fiscal, fiduciary, and reporting requirements of various donors around a Sector-Wide Approach (SWAP).

In the months that followed, several bilateral donors, in close collaboration with IDA, have responded favorably with commitments to support the SWAP approach and the pooling of funds around a single design solution including CIDA, SIDA, and EC along with anticipated support from DCI, DfID, KfW, and the Netherlands. Non-pooling donors that have committed to leverage support to the SWAP include AfDB, France, Germany, Italy, UNDP, and USAID. The bilateral perspective on the Program was conveyed to the Government through an issues note on harmonization, which was prepared by representatives of donor agencies that participated in the joint donor appraisal of the Government’s program (annex 10).

2. Objectives

The objective of the Public Sector Capacity Building Program (PSCAP) Support Project is to improve the scale, efficiency, and responsiveness of public service delivery at the federal, regional, and local level; to empower citizens to participate more effectively in shaping their own development; and to promote good governance and accountability. This objective will be achieved by scaling up Ethiopia’s ongoing capacity building and institutional transformation efforts in six priority areas under PSCAP—(i) Civil Service Reform; (ii) District-Level Decentralization; (iii) Urban Management Capacity Building; (iv) Tax Systems Reform; (v) Justice System Reform; (vi) Information and Communications Technology.

3. Rationale for Bank’s Involvement

The substantial and complex requirements of Ethiopia’s state transformation agenda necessitates IDA’s intensive involvement for three reasons—(i) managing the demands of rapid nation-wide scale up, (ii) leveraging the comparative advantage of IDA and other interested partners, and (iii) mitigating risk factors associated with serial direct budget support.

Managing the demands of rapid, nation-wide scale up. The scale and scope of the Government’s public sector capacity building program are unique in Africa (with the notable exceptions of Uganda and South Africa), as is Ethiopia’s political commitment to overcoming the fiscal and operational challenges to successfully implementing “state transformation.” Of the various donor partners involved in capacity building, IDA is best positioned to help the Government bring to scale this nation-wide, multi-sectoral
program of institutional overhaul within acceptable levels of risk. In addition, IDA financing in the context of Sector-Wide Approach to public sector capacity building also enables the Government to “smooth” out fluctuations in the provision of bilateral aid resources across regional states within the federal system, across subprograms of PSCAP, and across time.

**Leveraging the Bank’s comparative advantage and that of other partners around a “single design solution” to PSCAP.** IDA brings to bear considerable cross-country experience in several of the reform areas under implementation as part of PSCAP including urban management, district-level decentralization, civil service reform, and ICT. It is also leveraging its experience as a lead or strategic partner in supporting large scale capacity building programs in the few African countries that embarked on complex and rapid transformation strategies (for example, IDA’s provided critical programmatic support to Uganda’s multi-pronged effort to deepen democratic decentralization, civil service reform, expenditure management, and legal-judicial reforms over the mid-late 1990s). Overall, in Ethiopia, the Bank is also playing a catalytic role in encouraging donors—particularly those with intensive experience at the sub-national level and in areas such as justice systems and tax reform—to pool their support and harmonize around the Government’s “single design solution” for PSCAP.

**Mitigating risk factors associated with serial direct budget support.** A final set of rationale of Bank involvement relates to mitigating the fiduciary and implementation risks associated with IDA’s as well as bilateral direct budget support programs designed to help Government achieve poverty reduction objectives in the SDPRP. Specifically, assistance to be provided under PSCAP—for example, for the modernization of expenditure management systems, or restructuring and skills development in woredas and municipalities—are expected to significantly strengthen the confidence of Ethiopia’s aid consortia that budgetary resources are being effectively utilized to deliver essential services with a decentralized framework.

### 4. Description

#### 1.1 How PSCAP’s two components work

The Bank’s *Support Project* is fully aligned with the basic design of the Government’s PSCAP. As such, it supports the scale-up of ongoing institutional transformation and capacity building activities through two components—one federal, and the other regional. Activities planned under these two components will be drawn from a menu of eligible expenditures consisting of PSCAP’s six subprograms and mandatory “program support” (Figure 2). Drawing on this menu, each component is (i) planned based on annualized five-year drawing rights; (ii) adjusted semi-annually and annually; and (iii) reflected in participation and performance agreements with commitments to deliver on specific capacity building outputs.

- **Component 1—Federal PSCAP:** This component supports federal level activities across each of the six subprograms including those capacity building activities for which there are scale and network economies including those activities that require national level prototyping. The component is required to include basic program support activities to ensure effective implementation.

- **Component 2—Regional PSCAP:** This component constitutes the bulk of the Program and is designed to empower regions to adapt and implement national reform and capacity building priorities envisaged under PSCAP’s six subprograms in a manner that is efficient, accountable, and sustainable.
Synergies and trade-offs between key subprograms will be fully leveraged through this component. Regions will also shift resources year-to-year and in-year from poor performing to higher performing subprogram activities. This component is also required to include basic program support activities to ensure effective implementation.

During the preparation process, a 20%-80% vertical division of PSCAP resources (including Treasury and anticipated donor resources) was established between federal and regional components over the five-year life of the program. Resources assigned for the regional component were further divided horizontally across regional states on the basis of the equity-oriented regional subsidy formula. Financing provided under the Bank’s Support Project shall be fully aligned with this approach to allocating PSCAP resources in order to ensure predictability and transparency of the drawing rights ceilings within which PSCAP component plans are articulated. It is envisaged that refinement of this allocation methodology may be required—on the basis of periodic reviews—over the course of program implementation.

1.2 Building PSCAP components from activity menus

The objectives and specific menus of activities that fall within each subprogram of PSCAP are explained below. Selected and planned on an annual basis, these activity menus of capacity building activities (comprising combinations of technical assistance and consultancy services, goods and equipment, and training) are building blocks for the two components described above.

- **Subprogram 1—Civil service reform.** The objective of this subprogram is to promote the development of an efficient, effective, transparent, accountable, ethical, and performance-oriented civil service. Support under the subprogram includes (i) the strengthening of the Civil Service Reform Program coordinating structures; (ii) improving expenditure management and control through drafting of financial regulations and directives, roll-out of budgeting and accounts reforms, implementation of procurement reforms, development of medium-term planning systems, strengthening of internal and external audit, modernization of cash management, and the roll-out of financial management information systems; (iii) improving the governance of human resource management including the development of prototype policies on human resource development, time management, and remuneration, the implementation of the results-oriented appraisal system, the development of payroll and human resource information systems, and support for subsidiary regulations such as the code of ethics; (iv) improving performance and public service delivery through the roll-out of the Performance and Service Delivery Improvement Program (PSIP) in ministries, agencies, and bureaus; (v) improving accountability and transparency through a parliamentary oversight, anti-corruption, the strengthening of systems and development of innovative techniques for monitoring fiscal and output performance including expenditure tracking surveys, cost efficiency studies, service delivery report cards; (vi) strengthening of top management systems through training of senior managers and officials in strategic planning, performance measurement, top management development, and value for money management; and finally (vii) building the policy and institutional capacities of emerging regions through the development of basic civil service structures and systems. Linkages with the district-level decentralization, urban management, ICT, and tax systems reform subprograms will be reflected in federal and regional plans and coordinated during implementation.

- **Subprogram 2—District-level decentralization.** The objective of the subprogram is to deepen the devolution of power to the lower tiers of regional government, to institutionalize decision-making processes at the grassroots level with a view to enhance local participation, to promote good governance, and to improve decentralized service delivery. Subprogram activities include support for (i) woreda...
manning and training including human resource policies, procedures, and plans as well as bulk training in areas critical to local government; (ii) technical assistance and training for grassroots participation including the development of guidelines and monitoring mechanisms, and the strengthening of civil society involvement at the local level; (iii) woreda institutional and organization development including assessment of functional assignments and enabling legislation, assistance in establishing structures and restructuring existing arrangements including local level accountability relationships; (iv) capacity building for policy and program development including technical assistance for woreda decentralization strategy and policy development, benchmarking and review of plans; (v) development of woreda fiscal transfer mechanisms and revenue mobilization capacities through the review and design of various intergovernmental fiscal instruments; (vi) strengthening of the planning system & financial management at the woreda level; and (vii) the development of minimum service standards in priority sectors. Linkages with the civil service reform, urban management, and tax systems reform subprograms will be reflected in federal and regional plans and coordinated during implementation.

Figure 2. Building PSCAP Components from Activity Menus

- **Subprogram 3—Justice systems reform.** This subprogram, currently a work-in-progress, is designed to promote the rule of law as well as the efficient and effective functions of the justice system as part of Ethiopia’s broader democratization and private sector development processes. Subprogram activities include (i) strengthening the Justice Systems Reform Program Office and regional equivalents; (ii) strengthening the courts by providing in-service training of judges and court clerks, court administration reform, development of records and case load management systems, and identification of measures to enhance access to justice; (iii) support for law reform including the development of systems and procedures for declaring income and property, identification of new areas for law development, compiling and preparation of laws and regulations, and drafting of stock exchange and other laws; and (iv) strengthening of legislative process including training, technical advisory services, and acquisition of equipment for staff of federal and regional standing committees on legislative drafting and analysis of legislative process and
management, as well as training for members of standing committees on principles of federal grant and intergovernmental fiscal framework, monitoring and impact assessment, HIV/AIDS and gender issues, accountability and participation. *Linkages with the civil service reform, urban management, ICT, and tax systems reform subprograms will be reflected in federal and regional plans and coordinated during implementation. It should be noted that IDA will not finance activities outside the remit of its Articles such as strengthening of police, prosecutions, and prisons.*

- **Subprogram 4—Urban management capacity building.** This subprogram aims to enhance the capacity of municipalities in the delivery of services and enable urban centers to play a more effective role in social and economic development. The major activities envisaged under this subprogram include: (i) technical assistance for the development of federal and regional policies related to urban development, housing, urban land, municipal structures, the formation of municipal associations; (ii) technical assistance for the deepening of municipal decentralization through the preparation of manuals governing resource management, review and organization of training and human resource needs, establishment of regional planning units, and development of fiscal transfer and revenue mobilization mechanisms; (iii) support for local government restructuring and capacity building including restructuring of water and sanitation, urban land, and other services, development and roll-out of financial, human resource, and land systems, and organizational and related reviews, as well as bulk training for municipal officials and staff. *Linkages with the civil service reform, district-level decentralization, ICT, and tax systems reform subprograms will be reflected in federal and regional plans and coordinated during implementation.*

- **Subprogram 5—Tax systems reform.** The subprogram aims to encourage capital investment and development, increase tax revenues (through improved compliance and efficiency of collection), and ensure equity and fairness in the tax system through a comprehensive overall of the current legislation and tax administration system. These objectives are to be achieved through the following subprogram activities: (i) continued development of tax policy and legislation including amending the current income tax legislation to reflect the current business and investment environment, implementing presumptive and value-added taxes, strengthening enforcement powers of tax collection bodies, and sensitization of taxpayers *inter alia* through establishment of a Taxpayer office; (ii) roll-out of the computerized Tax Payers’ Identification Number (TIN) system in 74 regional centers, improving information sharing between the Federal Inland Revenue Authority (FIRA), Ethiopia Customs Authority (ECuA), as well as regional and city administrations; (iii) customs reform and modernization including the review of legal framework, review and implementation of customs procedures in line with COMESA, deepening of ongoing implementation of performance improvement in ECuA, establishment of a customs laboratory and training center, roll-out of management and core staff training in areas such as human resource development, IT management, WTO valuation system, commodity classification, and application of international conventions on simplification of customs procedures. *Linkages with the civil service reform (for examples, performance activities in ECuA), justice, ICT, and tax systems reform subprograms will be reflected in federal and regional plans, and coordinated during implementation. Over time, the tax systems reform program will be coordinated with plans to develop sub-national taxes as envisaged under the district level decentralization and urban management subprograms.*

- **Subprogram 6—Information & communications technologies (ICTs).** The objective of this subprogram is to harness ICTs for the development of human resources, democratization, service delivery, and good governance. Several programs under PSCAP including CSRP, DLDP, Urban Management, and Tax Sector Reform are seeking to use ICTs in this manner. Successful implementation of ICT-based solutions across government will require support for (i) human resource development through the development of an ICT human resource strategy, ICT curricula for schools, vocational training centers, and universities, as well as the training of trainers, the establishment of distance learning centers, and the
financing of research on the use of ICTs; (ii) ICT use for public service and good governance through the development of information systems strategies, development of service delivery applications, establishment of data centers and government portals, WAN and LANs, as well as the procurement of required hardware and software; and (iii) ICT for sector development including the installation of applications in the social and infrastructure sectors; and (iv) community-based ICT systems and services through the development of strategies, applications, and local content for community information centers to facilitate specific developmental activities. While the development of public sector applications such as financial, human resource, and land management systems will be procured under respective reform programs (for example, CSRP, UMCBP, TSRP), sector-specific applications (for example, agriculture) will be financed under the ICT subprogram. Plans for these applications will be coordinated between subprograms, regions, and ICTDA.

Mandatory activity—Program support. As a required activity at both the federal and regional level, program support is designed to ensure speedy implementation of the six subprograms in a holistic manner. It will finance incremental costs associated with operating requirements of Planning and Programming Departments or equivalents in regions, the Budget and Finance Directorate in the MCB, related subprogram offices that serve members of the federal and regional Technical Teams, and relevant offices in the Ministry and Bureaus of Finance and Economic Development. Specific support activities will include the costs of program/project coordination and planning, training management, IEC activities, monitoring and evaluation, basic training, auditing, office supplies, equipment operation, transport, travel, and per diems.

1. Federal PSCAP
2. Regional PSCAP

5. Financing

<table>
<thead>
<tr>
<th>Source (Total ( US$m))</th>
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<tbody>
<tr>
<td>BORROWER ($137.50)</td>
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<tr>
<td>IDA ($100.00)</td>
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<tr>
<td>CANADA: CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA) ($38.80)</td>
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<tr>
<td>SWEDEN: SWEDISH INTL. DEV. COOPERATION AGENCY (SIDA) ($8.60)</td>
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<tr>
<td>BILATERAL AGENCIES (UNIDENTIFIED) ($112.90)</td>
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Total Project Cost: $397.80

6. Implementation

As Ethiopia’s multi-sectoral capacity building platform, PSCAP represents an important innovation and challenge in terms of inter-ministerial and intergovernmental coordination. Overall, the Government is adopting a “risk aware” approach by building on established implementation modalities (for example, for planning and budgeting, funds flow and disbursement, as well as procurement) developed under the Education and Health Sector Development Programs. The following distinguishing features of PSCAP are worth noting in terms of their implications for its underlying institutional and implementation framework:

- PSCAP is inherently multi-sectoral, comprising six cross-cutting subprograms. Successful implementation of these subprograms necessarily requires the active participation of several lead institutions at the federal and regional levels (for example, the Urban Development Capacity Building Office in the Ministry of Federal Affairs and its lead role in carrying out federal activities of the Urban Management Capacity Building Program and supporting regions on sub-national level activities).
- Unlike financing provided under the Education and Health Sector Development Programs, federal specific-purpose transfers under PSCAP are additional to the regional subsidy. Formula-driven “drawing
“rights” are not entitlements but commitments that may be reallocated—within parameters—if not properly and efficiently utilized. In other words, regions that access PSCAP are therefore subject to performance-oriented conditionality. Such an arrangement places a premium on timely financial and activity-based monitoring within year, and output-based monitoring across years.

- Third, several multilateral and bilateral donors have responded to the Government’s desire to pool resources around a Sector-Wide Approach to PSCAP in order to ensure that all regions and subprograms under the Program have access to predictable and adequate financing. These SWAP arrangements necessitate a transparent process of joint review, appropriately aligned with the overall SDPRP monitoring and annual budgeting cycles.

In response to these new challenges, the Government has developed a governance and institutional framework that places a premium on four governance principles—(i) intensive coordination across tiers and branches of government, (ii) compliance with clearly defined rules of the game (for example, for allocation and reallocation); (iii) transparency and information sharing (for example, on matters of performance) within the public sector and with the public at large; and (iv) extensive support to implementing agencies in the design, execution, and quality assurance of reform activities. These are described below and depicted in figure 3.

### 4.1 Governance and cabinet level accountability

A unique feature of Ethiopia’s capacity building system is the role of the Minister of Capacity Building—as head of the “super-ministry”—within the framework of cabinet decision-making. Specifically, (s)he is accountable to the Council of Ministers for the overall achievement of agreed upon semi-annual and annual outputs and results for PSCAP. In order to deliver on these results, the Minister—in coordination with other cabinet ministers for lead PSCAP institutions including the Ministries of Federal Affairs, Finance and Economic Development, and Revenues—will approve regional and federal plans, allocate federal and regional budgets for PSCAP, and oversee program implementation. In addition, the Minister will ensure that the PSCAP system of planning, resource allocation, execution, and re-allocation operates in a fair and transparent manner on the basis of clearly defined rules. In supporting his/her final proposals to cabinet (and eventually parliament) on resource (re)allocation within PSCAP, the Minister of Capacity Building will rely on the recommendations of federal and regional Technical Teams (see below) as well as technical experts in the Ministry of Finance and Economic Development.

Similarly, at the regional level, the heads of bureaus of capacity building will be responsible for endorsing PSCAP plans in coordination with bureau heads of other lead institutions; seeking appropriation of regional contributions for infrastructure and recurrent costs of PSCAP activities from regional parliaments; and achieving the agreed upon outputs and results of regional PSCAP, as reflected in annual summary performance and participation agreements.

It is important to note that the JSRP is managed by a steering committee comprising a wide array of stakeholders across branches of government at the federal and regional levels. At the federal level, the steering committee consists of members from the Supreme Court and House of Peoples’ Representatives along with the Ministry of Justice and Ministry of Capacity Building. Similar steering committee arrangements for JSRP exist at the regional level. These bodies will continue to function, as established, within the overall governance framework for PSCAP.

### 4.2 Federal level implementation arrangements

**Ministry of Capacity Building.** The Ministry of Capacity Building (MCB) is responsible for macro-level management of Ethiopia’s national capacity building efforts such as PSCAP including establishing
policies, designing national strategies, ensuring their integration with sectoral strategies, developing guidelines for programming capacity building, providing technical support to regions, and evaluating ongoing program implementation. The Ministry, and specifically, the State Minister of Capacity Building is responsible for the overall coordination of PSCAP; serves as co-chair of the Joint Government-Donor PSCAP Working Group; and coordinates Government participation in regular formal reviews of implementation progress.

For purposes of day-to-day management of PSCAP, the Ministry coordinates an inter-ministerial Federal Technical Team (FTT), and houses a Planning and Program Directorate (PPD) as well as a Budget and Finance Directorate (BFD). Roles and responsibilities of each are described below.

- **Federal technical team.** The FTT comprises *inter alia* the director of MCB’s Planning and Programming Directorate as well as PSCAP’s six subprogram directors, as well as representatives from MOFED and MFA is a critical quality assurance and coordination body. As such, the FTT is responsible for reviewing, appraising, and recommending approval of annual plans submitted by federal lead institutions and regions in line with technical criteria delineated in the PIP (for example, completion of the “mandatory minimum” capacity building activities, sequencing of reform activities, provision of regional financing for upfront civil works and ongoing recurrent costs of IT investments). It is also responsible for reviewing in-year and annual performance and recommending re-allocations of five-year drawing rights between non-performing and performing regions. During implementation, the FTT—with the support of the PPD and BFD—supports the development of content of reform programs, provides quality control and review of outputs produced by consultants prior to approving payment; defines equipment specification and undertake acceptance tests of equipment procured; develops communication and change management strategies; and ensures the quality and consistency of reform efforts. If needed, additional technical expertise will be recruited on a temporary basis to assist FTT in appraising applications of a specialized nature (for example, those under the ICT component).

- **Planning and programming directorate.** A planning and programming directorate (PPD), housed in MCB, serves as the secretariat for the Program, and specifically for the State Minister responsible for PSCAP and the federal technical team. The PPD issues and enforces operating guidelines; assists the FTT in the vetting of annual plans for quality and completeness; ensures participatory planning processes are undertaken; facilitates coordination between members of the federal and regional technical teams; assists in consolidating, managing, and organizing the supply of training across six subprograms; helps the FTT provide detail follow-up and quality assurance during implementation; implements communication and change management strategies; and consolidates quarterly, semi-annual, and annual progress reports. The PPD also serves as the counterpart institution to the Joint Government-Donor PSCAP Working Group and shall therefore facilitate review and supervision missions, as well as information sharing such as disclosure of annual and other related reports, survey data, and other occasional papers.

- **Budget and finance directorate.** The budget and finance directorate (BFD) of the MCB is responsible for overall monitoring of procurement under the Program. It is also tasked with procurement and financial management of the three federal level subprograms that fall within the Ministry’s mandate—namely CSRP (except “expenditure management and control” activities), DLDP, and JSRP (except ‘strengthening the judiciary’ activities). The directorate is also responsible for carrying out international competitive procurement of goods under the Program. Supported by a full complement of local procurement specialists and international advisers, the directorate will work closely with subprogram directors and staff in the CSRP, DLDP and JSRP Offices in the MCB to vet and finalize TORs, undertake equipment specification, technical evaluation, drafting and negotiation of contracts, and contract management. It will work with regions and other lead institutions for international competitive procurement of goods. The directorate will commit to service standards in terms of efficiency and
timeliness of financial management and procurement activities.

**Ministry of Finance and Economic Development.** The Ministry of Finance and Economic Development (MOFED) is responsible for enforcing the rules of allocation and access for this flagship intergovernmental transfer program. The Ministry (and specifically, the Regional Affairs Department), in collaboration with the MCB, is responsible for effecting vertical and horizontal divisions of PSCAP resources; issuing formula-based medium-term drawing rights or notional envelopes to govern medium-term planning and annual budgeting; and recommending mid-year and annual reallocations of five-year drawing rights. Both the Central Accounts Department (CAD) and Counterpart Funds Unit (CFU) are responsible for the overall financial management under the Program including recording for budgetary support grants and loans. While the CFU manages the various special accounts (including requesting replenishments), the CAD will focus on closing of local currency accounts and the consolidation of financial reports. Opening and closing the special account, transfer of funds to the local currency accounts, and the replenishment of funds are the responsibility of the Treasury Department (TD).

**Subprogram offices in lead institutions.** The mandate for supporting the implementation of the six subprograms of PSCAP rests with subprogram offices in lead institutions. Overall, the role of lead institutions responsible for subprograms at the federal level is to ensure that this large constituency of eligible institutions are informed and consulted in the preparation of medium-term and annual plans. Specifically, the MCB houses the subprogram offices responsible for the Civil Service Reform, District-Level Decentralization, and Justice Systems Reform Subprograms. The newly created ICT Development Authority holds the mandate for the ICT Subprogram. For purposes of day-to-day management, the Expenditure Management and Control Program (EMCP) Coordinating Office within MOFED is responsible for “expenditure management and control” activities under the CSRP. The Ministry of Revenue manages the Tax Systems Reform Program, and the Ministry of Federal Affairs has the responsibility for the Urban Management Capacity Building Program. The Supreme Court is responsible for day-to-day management of federal PSCAP activities related to “strengthening the judiciary.” As lead institutions, these ministries and authorities with subprogram offices are delegated the financial management and procurement autonomy to carry out activities relevant to their reform mandates. In addition, the Ministry of Federal Affairs has established a taskforce to provide additional technical support to emerging regions such as Afar, Benishangul-Gumuz, Gambella, and Somali to carry out PSCAP-related activities.

**Other eligible institutions at the federal level.** Several other federal institutions are eligible to receive support—in-kind including through asset transfer—under PSCAP and its six subprograms. These include sector ministries (for example, for health, education, and infrastructure), authorities and agencies (for example, the Environmental Protection Agency), and other offices within the executive branch; public sector training institutions such as the Ethiopian Civil Service College; the judiciary or the courts; as well as supreme audit and oversight bodies such as the Office of the Federal Auditor General and the public accounts committee.

### 4.3 Regional level arrangements

**Bureaus of Capacity Building.** In each of Ethiopia’s eleven regions (including Addis Ababa and Dire Dawa), the Bureaus of Capacity Building (BCBs) are responsible for program coordination. For purposes of day-to-day management of PSCAP, the BCBs coordinate Regional Technical Teams (RTTs), and house Planning and Program Directorates (PPDs) or equivalents including Procurement Desks. Roles and responsibilities for each are described below.

- **Regional technical teams.** In each region, an RTT comprising *inter alia* the director of the
Planning and Programming Directorate as well as subprogram directors from lead institutions such as the Bureau of Finance and Economic Development, the Bureau of Trade, Industry, and Urban Development, the Bureau of Capacity Building, and the Bureau of Justice serves as the quality assurance and coordination body for PSCAP. As such, the RTTs are tasked with ensuring the consolidated regional plans meet eligibility, appraisal, and other criteria prior to their endorsement by regional cabinets and submission to the FTT. If needed, additional technical expertise will be recruited on a temporary basis to assist RTTs in appraising applications of a specialized nature (for example, those under the ICT component). During implementation, regional technical teams—with the support of PPDs—support the development of content of reform programs, provide quality control and review of outputs produced by consultants prior to approving payment; define equipment specification and undertake acceptance tests of equipment procured; develop communication and change management strategies; and ensure the quality and consistency of reform efforts.

Planning and programming directorates or equivalents. Planning and programming directorates (PPDs) or equivalents, housed in BCBs, serve as secretariats for PSCAP in regions and will maintain close links with the federal PPD. Each regional PPD enforces nation-wide PSCAP operating guidelines and relevant regional guidelines; assists the RTT in the vetting of annual plans for quality and completeness; ensures participatory planning processes are undertaken; facilitates coordination between members of the RTT; assists in consolidating, managing, and organizing the supply of training across six subprograms; supports regional PSCAP procurement activities (see below); helps the RTT provide detail follow-up and quality assurance during implementation; implementation of communication and change management strategies; consolidates quarterly, semi-annual, and annual progress reports; and facilitates regional involvement in supervision and review missions.

Procurement desks. Procurement desks, established within regional BCBs, are tasked with carrying out all relevant regional procurement activities for PSCAP. The desks are supported by at least two local procurement specialists and work closely with the beneficiary institutions to vet and finalize TORs, undertake technical specification and evaluation, drafting and negotiation of contracts, and contract management. In addition, Desks are expected to commit to service standards to ensure the timeliness of procurement activities within respective regions.

Bureaus of Finance and Economic Development. In each region, the Bureau of Finance and Economic Development (BOFED) is responsible for all relevant financial management activities required under the Program including managing funds flows through Channel 1, ensuring monthly consolidation of Statement of Expenses, ensuring the accuracy and timeliness of financial reporting, and effecting payments on local and foreign contracts in line with the recommendations of the regional PPD.

Other eligible institutions at regional and local levels including woredas and municipalities. Several regional institutions are eligible to receive support—in-kind including through asset transfer—under PSCAP and its six subprograms. These include sector bureaus (for example, for health, education, and infrastructure) as well as authorities and agencies within the executive branch; public sector training institutions such as Regional Management Institutes; the regional and local judiciary or the courts; audit and oversight bodies; and woredas and municipalities.

Even though the actual transfer of PSCAP resources from regions to woredas and municipalities is not currently envisaged at this stage, the bulk of PSCAP support is expected to be delivered in-kind at the local level. In order to ensure a close match between regionally managed activities and woreda and municipal level needs, the PSCAP planning process is expected to incorporate a sample of woreda and municipal development plans. Woredas and municipalities are expected to be informed about eligible expenditures under PSCAP so that capacity building activities (for example, accounts and budget reform roll out or bulk and hands-on training) are appropriately reflected in development plans. The introduction of PSCAP transfers from regions to woredas and municipalities will be considered at a more advanced stage of
4.4 Joint Government-Donor institutional review processes

A Joint Government-Donor PSCAP Working Group has been established to support information sharing on capacity building, as well as joint preparation, appraisal, and supervision activities. On the Government’s side, the MCB and MOFED are primarily involved in supporting this harmonization agenda. From the donors’ side, members to date include AfDB, CIDA, DCI, DFID, EC, Finland, France, Germany, IDA, Italy, Japan, KfW, Netherlands, SIDA, UNDP, and USAID. The active involvement of these members in regular, institutionalized joint Government-Donor review of implementation is critical to the success of a Sector-Wide Approach to PSCAP.

Specifically, formal quarterly review meetings of the Addis-based Joint Government-Donor PSCAP Working Group are held to review implementation progress reports. In addition, a semi-annual multi-donor supervision mission and an Annual Joint Government-Donor Review Mission (ARM) are held prior to and/or during the mid-year reallocation and annual allocation exercises. Both the supervision mission and ARM contribute to the ongoing due diligence requirements of IDA and other donors; findings feed into the various allocative decisions undertaken by Government, as well as the Annual Progress Report on the SDPRP. General Terms of Reference for these arrangements are contained within the PSCAP Harmonization Agreement.

Figure 3. Institutional Framework for PSCAP—Planning, Appraisal, Approval, and Execution
7. Sustainability
The sustainability of institutional reforms and capacity building activities under PSCAP depend on the following six factors, which have been addressed in the context for program design.

- As a “framework” rather than “blueprint”-type operation, the Bank’s Support Project will depend on the Government’s system of program formulation and execution, and specifically, how effectively it articulates and enforces the rules of game governing access, allocation, and re-allocation. Of particular importance in institutionalizing PSCAP is the degree to which these rules are formally locked into the intergovernmental fiscal system (for example, through PSCAP’s designation as a specific purpose federal program additional to the regional subsidy, or the use of formula-based drawing rights and performance-based disbursements) as well as Government’s reliance on established planning and budget procedures to guide year-to-year prioritization processes. Alignment with the fiscal system is a key design principle underlying PSCAP; this bodes well for the program’s viability.
The reform content of plans and the quality of implementation within this “framework”-type project will be a second factor affecting value for money and sustainability. Given the complexity of capacity building and institutional reform activities, the credibility of PSCAP as a whole will depend heavily on the review and quality assurance mechanisms the support planning, appraisal, and implementation at the federal and regional levels. Particularly noteworthy are the benefits that will likely derive from institutionalizing regular coordinated feedback from donor partners on the implementation of various subprogram activities within the overall federal and regional PSCAP components.

Third, the program’s multi-sectoral scope places a premium on effective coordination within and across tiers of government. The Government’s network of capacity building offices and liaison units at the federal, regional, and local levels provides the basic institutional framework for this type of coordination. However, the efficacy of these arrangements will depend in large part on the clarity of roles and responsibilities between capacity building, finance, and sectoral offices at each tier of government. The role of institutions outside the executive including the legislatures and courts will also need to be appropriately defined. Recent efforts by the Government to clarify the roles and responsibilities as well as the accountability framework for the Program overall are highly encouraging. Specifically, delegation of program management responsibilities to federal subprogram offices and regions, as well as delineation of financial management and procurement arrangements across tiers of government bode well for coordination efforts during program implementation.

Coordination among donors is a fourth factor necessary to ensure the continuity of Government’s institutional reform efforts. Organized in the form of a Sector-Wide Approach, the multi-donor support for PSCAP will reduce transaction costs and maximize consolidated external funding around a “single design solution.” The establishment of a Joint Government-Donor Working Group to support quarterly reviews, semi-annual supervision missions, and Joint Annual Review Missions will likely enhance transparency and credibility of Government efforts under PSCAP.

Fifth, the credibility and viability of the PSCAP system will require that Government showcase tangible improvements in service delivery performance early on. Notable successes such as dramatic reductions in processing time for business licensing, increased convenience and client orientation of one-stop shops in Addis Ababa, or rapid improvements in land management in cities such as Mekele and Bahir Dar are all indications that capacity building makes a difference for the “bottom-line” of ensuring value for the taxpayer’s money.

A sixth and final concern is the need to ensure a regular participatory review (preferably involving Government, private sector, civil society, and external actors) of change processes to encourage learning-by-doing as well as effective demand for institutional change. The Government’s plans to use a variety of monitoring and feedback mechanisms such as surveys, client report cards, and workshops, as well as its commitment to require disclosure or public reporting of the findings of M&E activities under the program is highly encouraging. Equally important is the MCB’s commitment to regular disclosure the findings of these various assessments as well as two-way IEC activities at the federal, regional, and local levels. Over time, it will be critical to foster a safe, yet accountable environment within which public servants and their clients can experiment with and develop more effective ways of undertaking planning, service delivery, as well as regulatory activities.
8. Lessons learned from past operations in the country/sector
The design of the Government’s program, and therefore by the Bank’s Support Project, builds directly on lessons learned from Ethiopia’s recent experience with public sector capacity building as well as the international experience in discrete areas of public sector reform including civil service and expenditure management reforms, decentralization, legal and judicial reform, tax administration, and ICT. The design also seeks to build on examples of successful program design in countries undergoing rapid institutional transformation.

3.1 Lessons learned from Ethiopia

Lesson 1. Projectized capacity building efforts supported by various donors in Ethiopia over the 1990s tended to be fragmented and poorly coordinated. They lacked the flexibility necessary to meet the fluid demands of institutional change. Multiple projects imposed significant transaction costs on beneficiaries through distinct financial management and reporting requirements. Scattered geographically based on the interests of various donors, these area-based or projectized initiatives did not, in most cases, provide nation-wide coverage.

In deliberate attempt to break with the past, the Government has created a Ministry of Capacity Building to coordinate a Sector-Wide Approach that pools donors resources around a single design solution to PSCAP with common fiduciary requirements. The design allows the Government to more thoroughly exploit economies of scope across capacity building programs (for example, civil service reform and decentralization) by using the Government’s own planning and budgeting system to encourage beneficiary institutions to prioritize across the full range of eligible PSCAP expenditures on a yearly basis. It would also follow a system of performance-based disbursement and reallocation to reward performers.

Lesson 2. Ethiopia’s tried and tested implementation strategy for managing rapid institutional change relies on a combination of top-down prototyping, and to a lesser extent, bottom-up implementation planning. This approach to rapid implementation was evident, for example, during the creation of the federation, the woreda and municipal decentralization process, and the re-launching of the CSRP. Increasingly, the Government has encouraged learning by doing initiatives at the regional and local levels; these initiatives help identify “good practices” that are subsequently then scaled up (for example, municipal and urban land reforms).

The PSCAP planning and budgeting system enables regions and their local governments to prioritize the roll out of prototypes and other prescribed activities within a resource envelope and in line with their sub-national priorities. The traditional practice of federal authorities providing informal guidance and direction, as well as the increasing tendency of regions to innovate approaches to public sector management (for example, strategic planning) have been formalized through the creation of a “matrix management” structure with subprogram directors providing quality assurance or technical advice, and regions determining implementation priorities between subprograms in any given year.

Lesson 3. The generally satisfactory record of other large scale operations such as the Education Sector Development Program (ESDP) can be attributed to their alignment with the intergovernmental fiscal system; delegation of financial management and implementation responsibilities to regions; and a strong effort on donor coordination. Other successful operations such as ESRDF benefited from a nation-wide network of implementation hubs that support planning, project management, and supervision. By the same token, the CBDSD project faced significant implementation delays in part because the project did not sufficiently delegate financial and procurement management responsibility (for example, for locally procured goods and services) to regions. Nor did it explicitly align
planning and prioritization of procurement activities with the Government’s planning and budget cycle. Finally, the key executing agency was not sufficiently equipped to coordinate project activities.

Overall, PSCAP’s institutional architecture will follow and build on arrangements employed under the SDPs and ESRDF. Specifically, the program will delegate financial and procurement responsibilities to lead ministries at the federal level and lead bureaus at the regional level. Planning of PSCAP activities will be undertaken in line with the established Government procedures and in accordance with the financial calendar. The funds flow from federal to regional levels will follow ‘Channel 1’ (i.e., from MOFED through the BOFEDs). A network of secretariats at the federal and regional levels will be used to ensure proper coordination of this nation-wide effort.

Lesson 4. In Ethiopia’s resource-scarce public sector, behavioral change has resulted from extrinsic and intrinsic incentive measures. Anecdotal evidence suggests that civil servants in Ethiopia respond favorably to both formal extrinsic incentives such as increased pay and formal performance targets, as well as intrinsic motivational measures such as participatory self-scrutiny, positive reinforcement by the leadership, and sensitization campaigns. These efforts to strengthen intrinsic motivational factors have resonated with actors within Ethiopia’s prevailing bureaucratic and political culture. Such measures, employed in the Civil Service Reform Program, have resulted in tangible improvements in service delivery performance including greater client orientation on the part of public servants (for example, in the Ministry of Trade and Industry and the Addis Ababa City Administration).

The reliance on intrinsic incentive mechanisms such as self-scrutiny has two implications for PSCAP. First, in the short term, such measures in conjunction with significant capacity building support are viewed as effective means of motivating performance and institutional change. In subsequent phases of capacity building, the Government is intending to rely more heavily extrinsic incentives. Second, intrinsic incentive measures including a nation-wide mobilization and planning process, which relied heavily on peer review, have also been employed by the Government to communicate the objectives and expected outcomes of PSCAP, and elicit formal commitments from regions and federal institutions to performance targets under the Program.

3.2 Lessons learned from international experience

Lesson 5. Sustaining rapid institutional change is often difficult, but feasible when political and technocratic ownership are closely aligned. In a few African countries such Uganda and South Africa where the learning by doing process has been (i) supported by high level political commitment and clearly defined strategic framework, (ii) enriched through the involvement of competent technocrats, and (ii) opened up to regular review by experts, stakeholders, and the public at large. In such settings, the roles of the legislature, media, public at large in regularly reviewing change processes have been institutionalized as well.

The program’s matrix management structure—built around subprograms and regions—as well as regular joint reviews by donor teams is intended to provide timely technocratic support to the ongoing process of change. At the same time, the participatory planning and review processes as well as regular monitoring and evaluation including through client surveys are anticipated. In addition, reviews of public sector reform processes such as the multi-donor financed Institutional Governance Review, CFAA and CPAR updates, and ultimately, the Government’s Annual Progress Reports on the SDPRP should provide the basis for more intensive scrutiny of implementation progress.

Lesson 6. Based on its extensive experience across a wide range of institutional settings, the Bank has
identified several elements of good practice that should be incorporated in the design of public sector reform programs. The Bank’s corporate strategy paper, "Reforming Public Institutions and Strengthening Governance," identifies the following corporate priorities which should inform the design of specific public sector reform operations—(i) a shift in focus from the content of public policy to the way policy is made and implemented, (ii) support for a broad range of mechanisms that promote public sector reform; (iii) emphasis on good fit over best practice; (iv) enhanced support for institutional development through multi-sectoral programmatic lending; and (v) a focus on organizing Bank teams to do better institutional work.

IDA support during PSCAP preparation and implementation reflects these broad corporate priorities in the following ways. Program beneficiaries use the Government’s own planning, budgeting, and execution processes as a way of prioritizing and sequencing their implementation of capacity building activities across the six PSCAP subprograms, and ensuring “good fit” with the specific institutional transformation needs of individual regions. The six subprograms of PSCAP address a gamut of issues related to the fundamental reform of the state including the creation of a local government sphere, establishment of formal checks and balances, and the introduction of performance oriented public management systems. PSCAP also is inherently multi-sectoral and seeks to avoid “stove-piping” through the involvement of sectoral institutions at each level of the planning and implementation process. Finally, PSCAP is supervised with the help of a sizeable Addis-based, multi-donor team, organized to leverage the core competencies of different members of Ethiopia’s aid consortia in supporting institutional development.

9. Environment Aspects (including any public consultation)
   **Issues**: This is a Category C project

10. List of factual technical documents:
    **A. Correspondences During Preparation**
    - Letters to Ministry of Capacity (MCB) regarding PSCAP (don’t we want to mention which Minister?)
      - World Bank, Comment on PSCAP Action Plan Guidelines to Director of MCB External Relations and Resource Mobilization, 6th June, 2003 (dates)
      - PSACAP Donor Group, Donor Follow up on Pre-appraisal to the State Minister of Capacity Building, 24th November, 2003
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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.