

## **Ethiopia – IDA Credit for Promoting Basic Services Phase III (PBS 3) Project and Country Partnership Strategy**

September 21, 2012

U.S. Position

### **Promoting Basic Services Phase III Project**

The United States welcomes today's discussion of Promoting Basic Services Phase III, a project reflecting the Bank's long-term partnership with the Government of Ethiopia to address the country's basic human development challenges. This has been an ambitious undertaking by the Bank and Ethiopia, and the United States commends staff for their hard work in collaboration with the Government of Ethiopia and development partners.

The United States highlights the strong gains that the country has made on the Millennium Development Goals and recognizes that PBS played an important role in helping to achieve these gains. The United States notes, among other achievements, the increase in primary school enrollment, decline in infant mortality, and improved rural access to potable water. These gains among a very large and diverse population have been achieved through a highly decentralized delivery system. Bank support has been essential in funding the substantial staffing needs and building the capacity required to make such a far-reaching program produce results.

The United States notes the efforts that the Bank has made to improve transparency and accountability in a political environment that traditionally has been less open to such reforms. In particular, the United States appreciates the publication of budget and expenditure data, which has reached 70 percent of all woredas (districts), as well as efforts to post basic service delivery data for consumers of these services. The United States also appreciates the efforts to implement social accountability tools, including the pilot grievance redress mechanism.

Notwithstanding the program's notable achievements in these areas, the United States continues to have serious concerns about the high fiduciary risks and weaknesses in the accountability mechanisms of the program. The United States is especially troubled about the KPMG audit on procurement issues that staff shared with us showing that only 6% of procurement contracts were satisfactory. Although the bulk of PBS expenditures are for salaries rather than procurement, the risks identified in the procurement audit reflect fiduciary risks at the local level that may have implications as well for PBS' payment of recurrent expenditures. In terms of accountability weaknesses, the United States is concerned that the grievance mechanism is only fully in place at the broad regional (and not woreda) level. Given the remoteness of many woredas, this means most citizens are unable to access the regional ombudsman. The United States appreciates that Sub-Program B -Strengthening Local Transparency and Accountability Systems - will help address these fiduciary and accountability issues. However, the United States wants to see positive outcomes in these areas before the United States can be confident that the government - which is playing no role in funding this Sub-Program - is committed to an effective and credible grievance mechanism that is accessible at the local level. As a supplement to the work that will be undertaken in this Sub-Program, the United States recommends that an independent audit of payroll systems be undertaken, perhaps in parallel with the next procurement audit.

The United States is aware that an Inspection Panel complaint has been filed that alleges possible involuntary resettlement associated with this program. The United States recognizes the Bank's assessment that these concerns do not trigger any of its safeguards. However, the United States takes these allegations seriously and the United States expects the Bank to implement fully its safeguards in situations where they are applicable. The United States would like to emphasize the special burden that the Bank has to ensure the highest possible standards, particularly in light of civil society allegations.

In conclusion, although the United States appreciates the impressive developmental gains that Ethiopia has made as well as this program's contribution to those achievements, the United States does not believe that the program incorporates adequate fiduciary controls and processes for accountability sufficiently to mitigate the inherent risks in such a large-scale, decentralized program. For this reason, as the United States has stated on previous phases of this project, the United States regrets that the United States must abstain. The United States urges Bank staff to design and integrate program mechanisms that will enhance fiduciary controls and accountability at all government levels and seek greater engagement with civil society as it moves forward.

### **Country Partnership Strategy**

The United States is pleased to discuss the Country Partnership Strategy for Ethiopia, which will help the country continue its impressive progress toward meeting the Millennium Development Goals. The United States notes in particular the increase in primary school enrollment, the decline in infant mortality, and the improvement in access to infrastructure and to potable water. The United States is impressed by the developmental outcomes achieved so far and appreciates the persistent effort of both the Bank and Ethiopian authorities to address the needs of Ethiopia's large and diverse population.

Notwithstanding these noteworthy results, the United States believes that future gains will depend on a greater openness by Ethiopia's government to private-led growth and investment, and to civil society. This was one of the lessons drawn in the last CAS Completion Report, and the new CPS appropriately recognizes that the government will be unable to fund the range of its development priorities solely through domestic financing. Attracting substantial private investment – and making the best use of IFC's and MIGA's recent engagement in Ethiopia – will require an increased focus on reforms to help private firms more easily conduct business in the country. While the United States respects that Ethiopian authorities must drive the country's development agenda, the United States urges the Bank to advocate strongly for reforms to allow a greater role for the private sector to drive the country's development. Similarly, the United States believes there is an important role to be played by other non-government actors, including civil society, which also can increase the responsiveness of government to the needs of the Ethiopian people.

The United States believes that improving agricultural productivity is key to Ethiopia's economic growth and development, and agrees with the Bank's assessment that a stronger framework for land tenure is necessary. The United States notes that the government's Growth and Transformation Plan intends to transform the agriculture sector in Ethiopia from subsistence to market-led production. As noted in the CPS, inconsistent rules governing land tenure contribute

to inefficiencies in the allocation of land for agriculture. The United States joins the Bank in encouraging greater progress in developing a transparent framework for land tenure.

The United States would like to see more rapid progress in the Bank's dialogue with the government on safeguards policies. The United States appreciates the Bank's ongoing engagement with Ethiopian authorities on the application of safeguards, including OP 4.10 on Indigenous Peoples. The United States is concerned, however, about the government's hesitation to come to an agreement on the application of this and other social and environmental protections. The United States is eager to see greater progress going forward.

The United States urges the Bank to be cautious as it considers the possible resumption of budget support under the new CPS. While the United States acknowledges that Ethiopia's fiduciary controls are improving with Bank support, the pace has been very slow and key weaknesses remain, as, for example, some recent independent analysis of Ethiopia's procurement systems has made clear. The United States asks management to consult closely with the Board as the Bank considers its plans for development policy operations in the country.