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Executive Directors
World Bank
1818 H Street, NW
Washington, DC 20433 US
iansolomon@worldbank.org
Via Email

February 19, 2015

Re: Ethiopia Promoting Basic Services Inspection Panel Investigation and Management Response

Dear World Bank Executive Directors,

We write to implore you to reject the Management Report and Recommendation in Response to the Inspection Panel Investigation of the Ethiopia - Promoting Basic Services Phase III Project (PBS), and to send it back for significant revision. The Management Report disregards and misrepresents both the Inspection Panel's findings and the views of Requesters regarding appropriate remedial actions. It represents a deplorable attempt to abdicate responsibility for the grave harms that have been inflicted upon some of the world's most marginalized people - harms to which the Inspection Panel found the World Bank contributed through non-compliance in the design and supervision of PBS. Management's feeble response to the grave findings of safeguard policy violations and lack of financial tracking and management of billions of dollars represents a new and shocking low in World Bank accountability.

The first three bold statements in the Management Report assert that the Inspection Panel concludes that the Bank bears no responsibility for the harms alleged in the Request for Inspection. This is patently false. The Panel concludes that the Bank is not responsible for the harms associated with land acquisition and forcible resettlement due to the inapplicability of the World Bank Involuntary Resettlement Policy (a conclusion with which we strongly disagree and which does not logically flow from the Panel's findings on risk assessment and financial tracking). However, the Panel also concludes that the Bank *does* bear responsibility for the harms suffered by the Anuak in relation to agricultural service delivery and livelihoods as result of its non-compliance with Bank policies on project appraisal, supervision, financial management and Indigenous Peoples.

The Panel finds that the Bank failed to undertake the required risk analysis for PBS III and failed to adopt adequate mitigation measures to address the concurrent rollout of the Villagization Program in four PBS regions, in non-compliance with OP 2.20 on Project Appraisal. The Panel finds that the Bank failed to identify and address these issues during project implementation and therefore failed to comply with supervision requirements in OP/BP 10.00 on Investment Lending.

The Management Response dismisses the Panel's findings on the operational interface between PBS and the Villagization Program and continues to make untenable assertions



that the two programs are not linked. Management states that it is confident that the achievement of PBS objectives did not and does not depend upon the Villagization Program, but it fails to respond to the central issue at hand: whether the Villagization Program depended upon the discretionary resources provided by PBS to achieve the same stated objectives. Management also fails to explain how PBS was implemented in Gambella other than through villagization.

In findings that should be deeply alarming to the Board, the Panel concludes that the un-earmarked and discretionary nature of the block grants provided to sub-national governments through PBS raises the potential for diversion; that the weakness of internal audit controls at the federal and regional levels supports the possibility that funds could have been diverted; and that the use of the high risk “Treasury System” for disbursing PBS funds means that the Bank has a limited ability to detect diversion. The Panel was not able to obtain evidence of diversion because it was not given access to the government’s financial records and because of the five-year backlog in external audits in Gambella, but the Panel states that this also means *“the World Bank’s assertion that it can fully track expenditures cannot be supported.”*

Management dismisses the Panel’s findings, pointing to “additionality” of resources and “fairness” as its key means of determining whether PBS’s discretionary funds are used for their intended purpose. Yet Management fails to explain or provide evidence of how it can be certain that the additional resources that flowed to Gambella woredas were not used to finance the payroll of government officials whose primary task during this period was implementing the Villagization Program. Contrary to Management’s assurances, the Panel’s findings indicate that the Bank has poured billions of dollars into a black hole in Ethiopia since 2006, never being able to assure itself how PBS funds have been used on the ground. It does not require a leap of faith to assume that some of these funds – which constitute the “major source of funding for woredas”¹ according to World Bank documents - were diverted to finance the colossal undertaking of resettling around four million people, as the Villagization Program set out to do.

Finally, the Panel finds that the Bank failed to comply with the Indigenous Peoples Policy in the design of PBS III because it did not take into account the Anuak’s strong attachment to their ancestral land and the natural resources upon which they depend for their livelihoods, well-being and access to basic services. Since PBS gives complete discretion to regional governments as to the use of PBS block grants for the delivery of basic services, when the Gambella Regional Government decided that the way it would deliver these services was by relocating 70% of the rural population into centralized villages, the Bank should have required application of the Indigenous Peoples Policy. Had the policy been triggered and the Indigenous Peoples of Gambella meaningfully consulted on their preferences for service delivery in a manner consistent with the IP policy, it is certain that most people would not have opted to abandon their fertile ancestral lands and relocate to dry, unworkable land. The Bank’s failure to apply the IP

¹ PAD, PBS Phase II (2009), p. 3.



policy to the PBS sub-projects in Gambella means that the project contributed to the adverse livelihood impacts experienced by the Anuak in the context of villagization. We have been informed that the Panel's clarification, issued in January, makes this attribution of Bank responsibility for harms clear.

The Management Response again rejects the Panel's findings on non-compliance with the IP policy by making the preposterous assertion that PBS achieved "functional equivalence" with the provisions of the Policy because this was confirmed by the findings of an "enhanced social assessment" carried out after PBS III had already been designed, appraised and implemented without any consultation of the Indigenous Peoples of Gambella.

It is not only the Panel's findings that are distorted in the Management Report; the Requesters' views have also been grossly misrepresented and belittled by Management.

At my NGO's expense, I flew to Nairobi to assist Management in fulfilling its obligation to consult with the Requesters in the preparation of its response and action plan. In the weeks leading up to the meeting, I relayed the Requesters repeated appeals for Management to go to the refugee camps and meet with them in secure locations where they reside. The appeals were based on Requesters' concerns that traveling to the World Bank offices in Juba and Nairobi may expose their identities and place their personal security at risk. They were rebuffed by the Bank, which insisted on holding the meeting at its offices in the capitals – placing the unfounded security concerns of World Bank staff above the well-founded concerns of highly vulnerable refugees. Hesitantly, the Requesters went to the meeting anyway, agreeing to take these risks (as they did when they filed the Request) out of the hope that their voices may actually be heard by the World Bank and some good might come out of the process for their people.

Yet the World Bank has ignored them. The Action Plan presented in the meeting - which the Requesters unanimously rejected - is virtually identical to the one that Management has submitted to the Board. To add insult to injury, Management summed up their extensive inputs in one gross mischaracterization: *"the Requesters' representative proposed the inclusion of actions that were clearly outside the scope of the Project or the Bank's remit altogether, such as terminating cooperation with the GoE and improving the security situation in Gambella."*

I attended this meeting and want to correct Management's disinformation for the Board.

In the five-hour meeting (reduced to one erroneous sentence by Management), the Requesters recounted their stories of rape, torture, beatings and arrests that accompanied the villagization process in Gambella and led them to become refugees. They unanimously expressed to the Bank representatives that their action plan fails to address any of their concerns and problems. And they conveyed a simple, unified message: they want their people to be genuinely consulted about development decisions that affect them and their land, and they want to be active participants in the design, implementation, monitoring and evaluation of development initiatives in their homeland.



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They want an Indigenous Peoples Plan for livelihood development and basic service delivery in Gambella, as well as support for education and livelihoods in the refugee camps in Kenya and South Sudan. Given their long history of suffering discrimination and abuse at the hands of the central government in Addis, and the current repressive political climate in Ethiopia, the Requesters do not believe that participatory and inclusive development is possible if the federal government has complete control of the design and management of projects. They therefore called upon the Bank to support community-driven development and livelihood restoration efforts in Gambella by channeling funds to Indigenous Peoples directly through an INGO or another suitable non-governmental agency. They echoed this call in a letter to President Kim, which is attached herewith.

The Board must not accept Management's denial of responsibility and its Action Plan that refuses to address the harms experienced by the Anuak or the systemic flaws in the PBS modality. The Board should require Management to fundamentally reform PBS to ensure that its resources are not used to abuse people and that its benefits accrue to Ethiopia's marginalized populations, including the Indigenous Peoples of Gambella. Results must be measured by development outcomes realized for intended beneficiaries and not merely by outputs that ignore the context in which they are delivered.

We trust that you will take prudent action to ensure World Bank accountability and redress in this very serious case.

Sincerely,

David Pred
Managing Director