

17 ETHIOPIA

INTRODUCTION

ETHIOPIA IS A COUNTRY IN THE HORN OF AFRICA with a population of 73 million people. The country's population growth of 2% per annum is faster than the global average of 1.78% for low-income countries. In 2006, Ethiopia had a gross national income (GNI) of USD 1 190 per capita (in purchasing power parity terms). The most recent poverty survey, from 2000, indicates that 23% of people live below the dollar-per-day international poverty line, with 77.8% living below the two-dollars-per-day line.

Total net official development assistance (ODA) to Ethiopia was USD 1 551 million in 2006, with the World Bank, the European Commission, the United States, the Global Fund and the United Kingdom as the five largest donors. Aid accounted for 14.7% of GNI in 2006, but has been steadily declining since 2004 when it was 19.2%. Twenty-one donors responded to the 2008 Survey, with their aid constituting around 94% of total ODA. The survey process has helped to focus attention on aid effectiveness issues and, having done so, may promote improvements.

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Good	National capacity for implementing the poverty-reduction strategy paper Scaling up of financial resources and improving predictability	Implement agreed capacity-building programmes Continue to increase use of multi-donor aid modalities Honour international commitments
Alignment	Mixed	Capacity constraints, particularly at the local level Further strengthening and increasing use of procurement systems and other government systems Problem of getting timely and reliable information Implicit conditionalities	Improved communication between donors and government Continue to increase use of multi-donor aid modalities Implement agreed capacity-building programmes Agree on clear and mutually acceptable conditionalities
Harmonisation	Mixed	Financial and legal rules restrict use of national systems	Move toward joint funding by donors through modalities that use government systems Implement agreed capacity-building programmes
Managing for results	Mixed	Improving monitoring and feedback mechanism	Implement agreed capacity-building programmes
Mutual accountability	Mixed	Lack of agreement on content of the monitoring mechanism	Agree on selected identified actions to achieve set targets

OVERVIEW

Box 17.1:

Challenges and priority actions

OWNERSHIP

OWNERSHIP IS CRITICAL TO ACHIEVING DEVELOPMENT RESULTS and is central to the Paris Declaration on Aid Effectiveness. Aid is most effective when it supports a country-owned approach to development; aid is less effective when countries feel that aid policies and approaches are driven by donors that provide assistance. In the context of the Paris Declaration, ownership specifically concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

INDICATOR 1

Do countries have operational development strategies?

Ownership has many dimensions. Indicator 1 – assessed as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead* – provides an entry point to the issue. The World Bank assesses the operational value of a country's development strategy and policy against three criteria, all of which are essential features of any serious effort to harness domestic and external resources for development purposes: the existence of an authoritative, country-wide development policy which clearly identifies priorities and is well costed.

The World Bank rates the operational value of a country's development strategy against a five-point scale running from A (highest score) to E (lowest score). The Paris Declaration 2010 target is to raise, to at least 75%, the proportion of partner countries having operational development strategies – *i.e.* meriting a rating of A or B.

In the 2006 Baseline Survey, Ethiopia received a rating of C for ownership, together with 62% of assessed participating countries. Such a rating implied that progress was being made, although not yet enough, and the basis existed for more substantive progress. In the 2008 Survey, Ethiopia increased its rating from C to B for the extent to which it has an operational development strategy. This indicates that progress has been made and that the country has taken significant action already, although further action will be needed. The government will need to continue to exert greater leadership if it is to increase its rating to A by 2010.

Ethiopia's long-term vision continues to be articulated in the Agricultural Development-Led Industrialisation (ADLI) plan, which was completed in 1992. The second poverty-reduction strategy paper, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) was completed in 2006 and runs from 2005/06 to 2009/10 Ethiopian fiscal year. Serving as the country's medium-term strategy, this plan has been integrated into the constitutionally mandated Five-Year Development Plan in order to consolidate development under one framework. The Millennium Development Goals (MDGs) are also integral to Ethiopia's five-year plan; MDG targets are fully built into the plan. Focus on poverty is a feature of the budgeting and prioritisation process at both the national and regional levels. The Macroeconomic and Fiscal Framework (MEFF) is in place, which provides information on overall spending targets. The sector strategies that informed the first PRSP have been updated to inform the PASDEP, but consultations are ongoing between government and donors to strengthen these strategies in some sectors. In general, there is effective integration of cross-cutting issues such as gender and environment in Ethiopia's development frameworks and budgeting processes.

Still, Ethiopia faces various challenges as it delivers the PASDEP. Donors and government must find ways to increase national capacity for its implementation. Development finance remains an issue, particularly in terms of both scaling up and predictability. Co-operation, must be improved between government and donors, amongst various donors, and amongst government ministries. These challenges are being addressed in several ways such as through the Public Sector Capacity Building Programme and government-donor sector working groups. In addition, to reduce transaction costs and improve PASDEP alignment, both government and donors are committed to the increased use of multi-donor aid modalities to channel ODA.

The Ministry of Finance and Economic Development is the driving force for the content and implementation of the PASDEP. For the first PRSP, the government established an inter-ministerial steering committee and a national technical committee, composed of individuals working on poverty issues. The same structures are being used for the PASDEP. Stakeholder participation has been significant in policy formulation, implementation and review. Several structures for stakeholder engagement have been established for various aspects of the plan. Stakeholders have also been engaged in discussions on, and their comments incorporated in, progress reports. Wider civil society and the private sector have been involved in policy formulation and implementation (at district, regional and national levels) and in providing comments on progress reports. After thorough discussions, PASDEP was also approved by Parliament. The Constitution requires Parliament to approve general policies and strategies of economic and social development as well as ratifying the budget. This has meant that Parliament has endorsed both policy and institutional reforms. Parliament is also involved in monitoring progress. ■

ALIGNMENT

FOR AID TO BE EFFECTIVE, it must be aligned with national development strategies, institutions and procedures. The Paris Declaration envisions donors basing their support fully on country partner aims and objectives. Indicators 2 through 8 examine several dimensions of aid to assess the degree to which partner countries and donors achieve alignment.

Ethiopia's progress towards the 2010 targets on alignment has been mixed; there is good progress in some areas, but progress in others has been slower. The country has made solid progress in building reliable public financial management (PFM) systems and co-ordination of donor technical co-operation has improved. The number of parallel project implementation units (PIUs) has nearly halved and there are indications that the number will continue to fall. By contrast, limited progress has been made on untying aid and despite progress in strengthening PFM systems, there was only a limited increase in the proportion of aid to the government that used the systems. The building of robust procurement systems has been well under progress, but proportion of aid (and donors) making use of such systems fell slightly. Aid disbursed being accurately reported on budget regressed slightly, while aid predictability declined significantly.

INDICATOR 2a

How reliable are country public financial management systems?

BUILDING RELIABLE COUNTRY SYSTEMS

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. In each case, the focus is on the degree to which these systems adhere to broadly accepted good practices – or to which there is in place a reform programme to promote improved practices. If countries have reliable systems, donors will be encouraged to use such systems for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

Indicator 2a of the Paris Declaration assesses the degree to which partner countries either have PFM systems that are in line with broadly accepted good practices or have credible reform programmes in place to establish reliable PFM systems. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong) with half-point increments. To score highly, a country needs to meet all three of the following criteria: a comprehensive and credible budget linked to policy priorities; effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and, timely and accurate accounting and fiscal reporting, including timely and audited public accounts. The 2010 target is that each country will move up at least one measure (*i.e.* 0.5 points) on the CPIA scale for measuring the quality of PFM systems.

In the 2006 Baseline Survey, Ethiopia received a rating of 3.5 for its PFM systems, placing it just above the average score of 3.2 for all International Development Association (IDA) countries. The country report noted that the World Bank judged Ethiopia to have made significant progress in strengthening PFM, largely as a result of the Expenditure Management and Control Programme (which allows the government to monitor and co-ordinate reforms) and significant decentralisation of fiscal responsibility. In terms of public financing, a MEFF is in place establishing the overall financial resources and sectoral allocation of PSDEP implementation. An additional strength is that the Auditor General is independent of the executive, and makes regular reports to the Parliament.

Since the previous round of monitoring, further progress has been made. Budget execution is generally sound and the linkages between fiscal resources, government budgets and prioritising needs within PASDEP have improved, though both government and donors need to further strengthen these links. The government has also led the implementation of a number of PFM reform programmes at both national and local levels. These include the Civil Service Reform Programme (which aims to improve the transparency and accountability of the civil service) and the introduction of new legal frameworks for budgeting, accounting, procurement, and auditing. The 2007 Public Expenditure and Financial Accountability (PEFA) confirms that recent improvements have reduced fiduciary risk, that the budget is broadly realistic, and that implementation is on track. Still, the 2007 PEFA recommends further improvements in the oversight of national finances. The government is now planning to roll out the Aid Management Platform (AMP) to selected line ministries to help manage ODA information flows.

Fiscal decentralisation has been further strengthened by activities to promote financial reforms, which have subsequently helped to improve the timeliness and reliability of public financial data. Capacity remains weak at the local level though and this often results in delayed or incomplete financial reporting. Donors believe that the focus now needs to move towards improving PFM at the sub-national level, and that local good governance programmes must be continued.

The global Paris Declaration 2010 target is for half of partner countries to register a half-point increase in the rating they receive for the reliability of their PFM systems. For Ethiopia, this entails moving from the latest CPIA data indicates that Ethiopia has advanced from 3.5 in 2006 to 4.0 in 2008, thus achieved the initial goal. This suggests that solid progress is being made and that a further half-point rise (to 4.5) would be worth striving for.

At the time of the 2006 Baseline Survey, no mechanism was in place to systematically assess and quantify the quality of procurement systems in partner countries. Thus, it was impossible to set country-level targets on progress towards Indicator 2b.

Ethiopia has undertaken several reforms, establishing a Procurement Agency and introducing new procedures and systems to improve the procurement process. The current focus is on strengthening capacity within government and rolling out various government plans including a revision of the Public Procurement Proclamation and Directive. The government also aims to restructure public procurement units to improve their effectiveness, and to improve information dissemination on procurement to suppliers and the general public to enhance transparency. Donors have supported this work and recognise the substantial improvements made to date. Close government-donor interaction should be used to assess the next steps needed and agree on a timetable for their implementation – as well as on the corresponding increase in the proportion of donor funds that will be channelled through government procurement systems.

ALIGNING AID FLOWS ON NATIONAL PRIORITIES

Comprehensive and transparent reporting on aid, and how it is used, is an important means of ensuring that donors align aid flows with national development priorities. The degree to which development assistance to the government sector is fully and accurately reflected in the budget provides a useful indication of the degree to which serious effort is made to connect aid programmes with country policies and processes. It also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

Indicator 3 is a proxy for alignment. It measures the percentage of aid disbursed by donors to the government sector that is included in the annual budgets for the same fiscal year. The indicator is a joint measure of two components: the degree to which donors report aid flows comprehensively to partner countries; and the degree to which partner countries accurately record aid.

INDICATOR 2b

How reliable are country procurement systems?

INDICATOR 3

TABLE 17.1:
Are government budget estimates comprehensive and realistic?

	Government budget estimates of aid flows for 2007 (USD m)	Aid disbursed by donors for government sector in 2007 (USD m)	2005 (for reference)	2007*
	a	b		c = a / b c = b / a
African Development Bank	153	248	89%	62%
Austria	1	3	--	26%
Belgium	0	4	--	9%
Canada	41	57	2%	72%
European Commission	230	272	99%	85%
Finland	4	8	37%	49%
France	0	9	81%	3%
Germany	28	63	38%	45%
Global Fund	33	61	--	55%
IFAD	11	20	--	56%
Ireland	16	32	28%	49%
Italy	20	92	0%	22%
Japan	5	26	0%	19%
Korea	0	2	--	0%
Netherlands	9	10	--	82%
Norway	0	3	40%	0%
Sweden	18	25	59%	72%
United Kingdom	135	184	50%	73%
United Nations (Core)	25	41	90%	62%
United States	4	208	15%	2%
World Bank (Core)	329	354	87%	93%
Average donor ratio	--	--	48%	45%
Total	1 063	1 723	74%	62%
World Bank Multi-Donor Trust Funds (for reference)**	309	309	--	--
Total World Bank Funding (Core plus Trust Fund) (for reference)**	638	663	--	--

* Ratio is $c = a/b$ except where government budget estimates are greater than disbursements ($c = b/a$).

** The survey captures disbursements by donors at the point of delivery. After the Ethiopian elections in 2005, bi-lateral donors stopped providing budget support; they are now channeling funds through multi-donor trust funds (MDTFs) administered by the World Bank or the United Nations. Based on the agreement between donors and government for the 2008 Survey, the amount of funds channeled through the MDTF is provided for information.

The final figure highlights any discrepancy between the government's budget estimates and actual disbursements by donors. The discrepancy (or gap) can be in either direction: budget estimates can be higher or lower than disbursements by donors. In order to have a single measure of discrepancy under 100%, the ratio is inverted when budget estimates are higher than donor disbursements. The 2010 target is to halve the proportion of aid flows to the government sector that is not currently reported on government budget(s), ultimately arriving at a point where at least 85% of aid is reported on the budget.

In the 2006 Baseline Survey, 74% of aid disbursed was accurately estimated in the budget, although it should be noted that for the average donor the proportion was only 48%. This led to the country's 2010 target being set at 87% which represents a halving of the proportion of aid flows to the government sector that are not reported on the government's budget.

The 2008 Survey reports a disappointing fall to 62% of aid accurately estimated in the budget on aggregate. This represents a consistent under-estimation by the government of aid flows for all donors. For the average donor the proportion also fell (to 45%), though it should be noted that the majority of poor performers provide only a small percentage of the aid to Ethiopia. The 2006 Baseline Survey noted that the government will need to set realistic budgets if it is to meet this target – and that donors will need to provide the government with timely and accurate information about planned disbursements if effective budgets are to be set.

The government is taking a strong lead in aid co-ordination, primarily through the High Level Forum (co-chaired by the government and donors), which takes place on quarterly basis. In order to improve communication between the government and donors, donors financed the implementation of the AMP, which will be rolled out to selected line ministries.

The 2008 Survey results suggest that meeting the 2010 target on alignment will be challenging for the government and donors. It also outlines several reasons why the government's estimates of aid flows are still not comprehensive. Donor disbursements may not meet estimates because of lengthy internal procedures for approval and implementation of new initiatives. Problems can arise when donor conditionalities are not explicitly reflected at the time of approval, and cause changes to disbursement predictability when such conditionalities are not met. Programmatic and budgeting cycles of most donors do not match those of the government, and communication flows between donors and government need to be improved.

Several options have been proposed for narrowing the gaps, such as agreeing on common definitions for classification reporting of financial flows combined with a single, comprehensive electronic reporting system. Improved reporting of donor flows, combined with regular crosschecking of donor and government assumptions, would also help – as would reducing the number of conditionalities related to disbursement and avoiding ambiguous conditionalities. Establishing a contingency fund to finance shortfalls due to disbursement delays might also be useful.

CO-ORDINATING SUPPORT TO STRENGTHEN CAPACITY

Capacity constraints significantly undermine the ability of partner countries to capture, co-ordinate and utilise aid flows more effectively. Under the Paris Declaration, donors committed to providing technical co-operation in a manner that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Likewise, there is greater recognition that successful capacity building is endogenous – *i.e.* is led by the partner country. To this end, the partner country defines clear objectives to ensure that existing capacities are used effectively and that external support is harmonised within this framework.

Indicator 4 focuses on the extent to which donor technical co-operation – an important input into capacity development – is moving towards this country-led model. It measures the degree of alignment between donor technical co-operation and the partner country's capacity development needs and strategies. The Paris Declaration 2010 target is that 50% of technical co-operation flows are implemented through co-ordinated programmes that are consistent with national development strategies.

The 2006 Baseline Survey reported that 27% of donor technical co-operation to Ethiopia was provided in a co-ordinated manner. The 2008 Survey reports a significant improvement to 67% of donor technical co-operation being provided in a co-ordinated manner, suggesting that Ethiopia has already met its 2010 target of 50%. Capacity building is one of the eight pillars of the national development strategy and Ethiopia has long had a comprehensive capacity-building programme supported by donors. This has been strengthened by the establishment of the Ministry of Capacity Building in 2001.

INDICATOR 4

A new Public Sector Capacity Building Programme supported by many of the largest donors aims to help institutions at all levels to deliver efficient services. Donors are also making use of multi-donor programmes to co-ordinate their support and recently established working groups to improve technical co-operation assistance. A division of labour exercise being undertaken by the donors should also help co-ordination, particularly once a lead donor for each sector has been identified.

TABLE 17.2:
How much technical co-operation is co-ordinated with country programmes?

	Co-ordinated technical co-operation (USD m)	Total technical co-operation (USD m)	2005 (for reference)	2007*
	a	b	c = a / b	
African Development Bank	2	23	100%	7%
Austria	2	3	--	75%
Belgium	0	0	--	0%
Canada	9	14	3%	63%
European Commission	13	21	22%	61%
Finland	1	1	69%	100%
France	1	10	0%	11%
Germany	17	19	84%	92%
Global Fund	0	0	--	--
IFAD	0	0	--	--
Ireland	6	7	--	95%
Italy	12	13	13%	93%
Japan	10	10	100%	100%
Korea	2	2	--	100%
Netherlands	1	3	35%	30%
Norway	0	1	0%	0%
Sweden	9	28	89%	33%
United Kingdom	6	17	14%	36%
United Nations (Core)	11	12	0%	97%
United States	41	88	2%	47%
World Bank (Core)	112	112	75%	100%
Total	256	383	27%	67%
World Bank Multi-Donor Trust Funds (for reference)	156	156	--	--
Total World Bank Funding (Core plus Trust Fund) (for reference)	268	268	--	--

* Ratio is $c = a / b$ except where government's budget estimates are greater than disbursements ($c = b / a$).

If further progress is to be made, several challenges remain. The government must take further leadership to plan, implement and monitor technical assistance to ensure that efforts in this area best meet the country's needs, and to ensure that support aligns with the national strategy. Local (rather than national) technical assistance must also be used when possible. Donors have identified other challenges including the need to reduce staff turnover in the government, improve local technical assistance, and accelerate implementation of the national Business Process Re-engineering programme.

USING COUNTRY SYSTEMS

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the partner's long-term capacity to develop, implement and account for its policies – to both its citizens and its parliament. The Paris Declaration encourages donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. In this respect, Indicator 5 is directly linked to Indicator 2 on the quality of PFM and procurement systems, and measures the use of both.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding to the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting, and auditing) as a percent of total aid disbursed to the government sector. The 2010 target is relative to Indicator 2a on the quality of PFM systems.

Indicator 5b measures the volume of aid, as a percent of total aid disbursed to the government sector, that uses partner country procurement systems. The 2010 target is relative to Indicator 2b; thus, targets are indicated only for those countries that established scores for Indicator 2b in the context of the 2006 Baseline Survey.

INDICATOR 5

TABLE 17.3:
How much aid for
the government sector
uses country systems?

	Aid disbursed by donors for government sector (USD m) a	Public financial management (PFM)					Procurement		
		Budget execution (USD m) b	Financial reporting (USD m) c	Auditing (USD m) d	2005 (for reference)	2007	Procurement systems (USD m) e	2005 (for reference)	2007 e / a
						avg (b,c,d) / a			
African Development Bank	248	65	65	65	33%	26%	65	64%	26%
Austria	3	0	0	0	--	0%	1	--	53%
Belgium	4	4	4	4	--	93%	4	--	93%
Canada	57	57	57	57	84%	100%	11	84%	20%
European Commission	272	207	207	168	10%	71%	168	10%	62%
Finland	8	3	3	0	31%	24%	3	93%	37%
France	9	3	3	3	45%	38%	3	42%	38%
Germany	63	13	13	13	40%	21%	44	40%	69%
Global Fund	61	0	0	0	67%	0%	44	0%	72%
IFAD	20	20	20	20	--	100%	20	--	100%
Ireland	32	31	31	31	100%	99%	32	100%	100%
Italy	92	25	0	16	--	15%	58	--	62%
Japan	26	2	2	2	16%	6%	2	16%	6%
Korea	2	0	0	0	--	0%	0	--	0%
Netherlands	10	10	10	10	25%	100%	5	15%	47%
Norway	3	3	3	3	0%	100%	3	80%	100%
Sweden	25	18	9	9	43%	48%	1	36%	5%
United Kingdom	184	168	164	33	103%	66%	145	100%	79%
United Nations (Core)	41	22	0	1	0%	18%	9	11%	22%
United States	208	9	9	9	4%	4%	9	0%	4%
World Bank (Core)	354	354	0	354	45%	67%	86	35%	24%
Total	1 723	1 015	601	798	45%	47%	712	43%	41%
World Bank Multi-Donor Trust Funds (for reference)	309	309	0	309	0	0	0	0	0
Total World Bank Funding (Core plus Trust Fund) (for reference)	663	663	0	663	0	0	86	0	0

Despite progress Ethiopia has made in improving its PFM and procurement systems, the 2006 Baseline Survey reported that only 45% of aid to the government sector made use of these systems. Given its score of 3.5 for the reliability of its PFM systems (Indicator 2a) the 2010 target for the use of those systems was set at 63%, with a goal that 90% of donors would use all three systems for at least some of their assistance.

The 2008 Survey shows a small increase – to 47% - in the proportion of aid using country systems; this is a long way from the 2010 target. Nine donors (60%) made use of all three systems for a significant percentage of their total aid to government, though this figure masks the fact that many larger donors use these systems for a much lower proportion of their aid to government. The events in 2005 led to suspension of budget support, which has had an impact on the use of country systems. The situation led to the introduction of a new Protection of Basic Services programme to ensure continued delivery of basic services to the poor, which is being supported by multiple donors including the Joint Budget Support Group. This programme uses the PFM system, but challenges remain particularly in terms of further strengthening the capacity of government officials. It should be noted that some additional requirements mandated by donor headquarters do not align with Ethiopia's country systems.

In the 2008 Survey, 41% of aid for the government sector made use of Ethiopia's procurement systems – a fall of 2% from the level recorded in the 2006 Baseline Survey despite improvements made to the systems. The low level of usage may reflect donor concerns and perceptions regarding the reliability and robustness of these systems, as well as donor financial and legal rules that restrict the use of national systems. No 2010 target has been set for Indicator 5b but there is a clear need to strengthen government procurement systems in line with the government–donor agreement and to establish precise steps for increasing the proportion of donor funds channelled through the national system.

AVOIDING PARALLEL IMPLEMENTATION STRUCTURES

INDICATOR 6

When providing development assistance, some donors establish specific project implementation units (PIUs), *i.e.* dedicated management units designed to support development projects or programmes. A PIU is said to be “parallel” when it is created at the behest of the donor and operates outside existing country institutional and administrative structures.

In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, PIUs often tend to undermine national capacity building efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to “avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.” Indicator 6 is a count of the number of parallel PIUs being used in partner countries. The 2010 target is to reduce by two-thirds the stock of parallel PIUs in each partner country.

In the 2006 Baseline Survey, Ethiopia recorded a total of 103 parallel PIUs. The country report also noted that a significant proportion of aid (especially bi-lateral aid) was provided in this manner.

The 2008 Survey records a total of 56 parallel PIUs indicating that the number has nearly halved and that Ethiopia is well on its way to achieving the 2010 target of 34 parallel PIUs. Nearly all donors have reduced their stock of parallel PIUs – most by half or more. The World Bank has eliminated all of its parallel PIUs and the increase in integrated multi-donor programmes is helping to cut the number further. Most of the remaining parallel PIUs are a result of past agreements between the government and donors. In some cases, their establishment reflects a failure to fully consider the availability of pre-existing public institutions. As these projects reach completion, the total stock of parallel PIUS will decline

further. There is some disagreement in this regard: the government indicates that in some cases donors have not fully considered the existing alternatives.

Several actions are being taken to achieve the 2010 target. Donor actions on division of labour should help to reduce the number of stand-alone projects and, hence, the total stock of parallel PIUs. Donor working groups are actively discouraging donors from establishing any new parallel PIUs. Ongoing efforts to build national capacity should help to ensure that public bodies are better able to implement projects.

PROVIDING MORE PREDICTABLE AID

For many countries, development assistance constitutes a vital source of revenue and resources. Being able to predict aid disbursements – in terms of both how much aid will be delivered and when – is as an important factor in the ability of countries to manage public finances and undertake realistic planning for development. It is particularly crucial to enabling partner countries to implement medium- to long-term development plans and to optimise the allocation of resources within and across sectors. In this regard, the Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable fashion according to agreed schedules.

Indicator 7 examines in-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in the national accounting system as actually disbursed. Indicator 7 assesses predictability from two angles. The first angle is the combined ability of donors and government to disburse aid on schedule. The second is the ability of donors and government to record comprehensively disbursements made by donors to the government sector.

	2005 (for reference)	2007 (units)
African Development Bank	1	0
Austria	--	2
Belgium	--	1
Canada	6	0
European Commission	1	1
Finland	1	1
France	4	2
Germany	4	2
Global Fund	0	0
IFAD	--	0
Ireland	0	0
Italy	8	7
Japan	0	0
Korea	--	0
Netherlands	0	1
Norway	0	0
Sweden	1	0
United Kingdom	0	0
United Nations	0	1
United States	62	38
World Bank	15	0
Total	103	56

TABLE 17.4:
How many PIUs are parallel
to country structures?

INDICATOR 7

TABLE 17.5:
Are disbursements
on schedule and recorded
by government?

Indicator 7 is designed to encourage progress in relation to both angles, with the aim of gradually closing the predictability gap – by one-half – by 2010. The ultimate goal is to improve not only the predictability of actual disbursements, but also the accuracy of how disbursements are recorded in government systems – an important feature of ownership, accountability and transparency.

	Disbursements recorded by government in 2007 (USD m) a	Aid scheduled by donors for disbursement in 2007 (USD m) b	Aid disbursed by donors for government sector in 2007 (USD m) for reference only	2005	2007*	
				(for reference)	c = a / b	c = b / a
African Development Bank	119	300	248	99%	40%	
Austria	2	2	3	--		86%
Belgium	0	9	4	--	1%	
Canada	53	50	57	98%		95%
European Commission	279	263	272	48%		94%
Finland	2	9	8	96%	22%	
France	4	14	9	87%	25%	
Germany	37	54	63	53%	68%	
Global Fund	95	122	61	--	78%	
IFAD	20	20	20	--	99%	
Ireland	31	32	32	84%	96%	
Italy	53	113	92	38%	47%	
Japan	43	26	26	56%		60%
Korea	0	1	2	--	0%	
Netherlands	12	7	10	59%		60%
Norway	2	3	3	43%	56%	
Sweden	23	28	25	92%	82%	
United Kingdom	248	178	184	99%		72%
United Nations (Core)	32	41	41	6%		78%
United States	56	313	208	6%		18%
World Bank (Core)	355	411	354	99%		87%
Average donor ratio				67%		60%
Total	1 464	1 996	1 723	96%		73%
World Bank Multi-Donor Trust Funds (for reference)	9	308	4	--		--
Total World Bank Funding (Core plus Trust Fund) (for reference)	419	662	359	--		--

* Ratio is $c=a/b$ except where disbursements recorded by government are greater than aid scheduled for disbursement ($c=b/a$).

In 2005, a very impressive 96% of scheduled disbursements to Ethiopia were recorded by government. The country report attributes the small shortfall to two factors – either donors did not notify the government of disbursements or the government recorded disbursements inaccurately. The global 2010 target is to close the predictability gap for aid by one-half. In Ethiopia, 2006 Baseline Survey show that the combined predictability gap was USD 50 million (less than 1% of aid scheduled). The 2008 Survey results for indicator 7 show that predictability has fallen significantly to from 96% to 73%, and the donor ratio has fallen from 67% to 60%. Several factors help to explain the gaps between disbursements scheduled by donors and those recorded by government. Both sides are responsible for administrative delays in completing the necessary procedures for approving programmes and payments – usually either as a result of over-complicated procedures or insufficient decentralisation from donor headquarters to the country level.

As highlighted above, lack of shared understanding of disbursement conditionalities also caused delays. Capacity constraints within implementing institutions lead to work and reporting (and therefore disbursements) falling behind schedule. As with Indicator 3, streamlining disbursement conditionalities, establishing a contingency fund to finance delays, and the use of a single comprehensive reporting system by donors and government will help to reduce delays.

UNTYING AID

Aid is said to be “tied” when it is provided on the condition that the recipient country will use it to purchase goods and services from suppliers based in the donor country. Experience shows that aid with such conditions attached increases the costs of goods and services provided to partner countries; it also increases the administrative burdens on both donors and partners. By contrast, untied aid helps build a country’s capacity to provide goods and services.

Country figures for untying aid are based on voluntary self-reporting by donors that are members of the OECD Development Assistance Committee (OECD-DAC). The 2010 target is to continue progress towards untying aid over time.

Based on data covering 57% of aid, the 2006 Baseline Survey reported that 39% of aid to Ethiopia provided by members of the OECD-DAC was untied. The average level of untying for countries participating in the 2006 Baseline Survey was 75%. The most recent data for aid provided to Ethiopia by members of the OECD-DAC shows significant progress: some 82% of aid is untied. As this figure reflects only 84% of total aid provided by OECD-DAC members, it may actually understate the total amount of untying. Despite the suspension of budget support, the government continues to use other instruments to persuade donors to untie aid. ■

HARMONISATION

DECADES OF DEVELOPMENT EXPERIENCE show that poor co-ordination of aid increases the cost for both donors and partner countries, and significantly reduces the value-added of aid. Harmonisation of aid delivery procedures and adoption of common arrangements help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and share analysis.

Ethiopia’s progress on harmonisation is also mixed. The proportion of aid that is programme based has increased to the point that Ethiopia has reached its 2010 target, despite the fact that donors provide no aid in the form of budget support as a result of the events in 2005. Donors have also made progress, albeit limited, towards increasing joint country analytical work. The slight increase was despite a near doubling in the volume of country analytical work. By contrast, the proportion of donor missions carried out jointly fell; unless significant action is taken, it will be challenge to meet the 2010 target in this area.

INDICATOR 8

How much aid is untied?

USING COMMON ARRANGEMENTS

INDICATOR 9

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A sound mechanism for aid co-ordination can be described as one that builds on shared objectives and that reconciles, in a constructive manner, the various interests of stakeholders.

Indicator 9 assesses the degree to which donors work together by measuring the proportion of total ODA disbursed within PBAs. In practice, there are many different modalities for implementing PBAs, which operate at various levels. At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* sector policy) and establishing a single budget framework that captures all resources (both domestic and external). At the second level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that 66% of aid flows are provided in the context of PBAs.

TABLE 17.6:
How much aid is
programme based?

	Programme based approaches (PBAs)			Total aid disbursed (USD m) d	2005 (for reference)	2007
	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c = a + b			
African Development Bank	0	68	68	248	64%	$e = c/d$ 27%
Austria	0	0	0	4	--	0%
Belgium	0	4	4	9	--	45%
Canada	0	57	57	75	61%	76%
European Commission	0	251	251	304	31%	82%
Finland	0	3	3	12	33%	25%
France	0	0	0	12	0%	0%
Germany	0	13	13	63	16%	21%
Global Fund	0	61	61	61	100%	100%
IFAD	0	20	20	20	--	100%
Ireland	0	32	32	48	22%	67%
Italy	0	23	23	94	14%	25%
Japan	0	26	26	28	0%	91%
Korea	0	0	0	2	--	0%
Netherlands	0	8	8	45	68%	17%
Norway	0	0	0	16	0%	2%
Sweden	0	31	31	40	55%	78%
United Kingdom	0	168	168	195	101%	87%
United Nations (Core)	0	23	23	43	100%	53%
United States	0	310	310	313	25%	99%
World Bank (Core)	0	205	205	354	59%	58%
Total	0	1 303	1 303	1 986	53%	66%
World Bank Multi-Donor Trust Funds (for reference)	309	0	296	296	--	--
Total World Bank Funding (Core plus Trust Fund) (for reference)	662	0	501	500	--	--

In the 2006 Baseline Survey, 53% of aid to Ethiopia was recorded as making use of PBAs, a figure that suggested it may be possible to meet the 2010 target of 66%. The 2008 Survey indicates that Ethiopia achieved this target in 2007, despite the fact that donors are not providing budget support after the events in 2005. The government and donors are working towards establishing sector-wide approaches (SWAs) in several sectors and the donor Development Assistance Group (DAG) has a mechanism for pooling funds to

support joint donor initiatives. Challenges remain, particularly in terms of harmonising financial and legal procedures for all donors for programme management. The compromises required to achieve donor agreement continue to impose high transaction costs, and thus reduce the incentive for other donors to join. There is a need to improve government capacity in designing new programmes.

CONDUCTING JOINT MISSIONS AND SHARING ANALYSIS

One of the most frequent complaints of partner countries is that donors make too many demands in relation to their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared.

Indicator 10 measures the extent to which donors are merging their missions (Indicator 10a) and analytical work (Indicator 10b) at the country level – either with country partner authorities or amongst the donor community (or both). It calculates the proportion of missions to the country undertaken jointly (*i.e.* by more than one donor) and the share of country-analysis exercises undertaken on a joint or co-ordinated basis. The 2010 target is that 40% of donor missions to the field are conducted jointly and that 66% of country analytical work is carried out jointly.

The 2006 Baseline Survey reported that 27% of donor missions to Ethiopia were conducted jointly; data for the 2008 Survey shows a slight increase to 29%. The current commitment of donors to increase joint funding may help to improve this trend. The European Commission (EC) regularly circulates a schedule of its upcoming missions to request co-ordination; in addition, the EC and United Nations Development Programme (UNDP) are developing a standard mission template that donors would be asked to complete and post online to further promote joint missions.

INDICATOR 10a

	Co-ordinated donor missions* (missions) a	Total donor missions (missions) b	2005 (for reference)	2007 c = a / b
African Development Bank	3	26	15%	12%
Austria	0	1	--	0%
Belgium	1	3	--	33%
Canada	0	5	62%	0%
European Commission	7	11	67%	64%
Finland	5	13	17%	38%
France	2	5	0%	40%
Germany	2	9	67%	22%
Global Fund	0	4	25%	0%
IFAD	10	10	--	100%
Ireland	2	5	25%	40%
Italy	4	6	33%	67%
Japan	0	15	0%	0%
Korea	0	6	--	0%
Netherlands	2	4	55%	50%
Norway	0	6	100%	0%
Sweden	0	0	22%	--
United Kingdom	7	7	85%	100%
United Nations	8	15	100%	53%
United States	2	2	50%	100%
World Bank	10	68	36%	15%
Total	49	221	27%	22%

* The total of co-ordinated missions has been adjusted to avoid double-counting. A discount factor of 35% is applied.

TABLE 17.7:
How many donor missions
are co-ordinated?

The limited increase in the proportion of joint missions in Ethiopia suggests that meeting the 2010 target of 40% of missions being conducted jointly will be challenging. Donors will need to pay much more attention to the total number of missions they impose on the government.

INDICATOR 10b

Country analytical work encompasses the analysis and advice necessary to strengthen policy dialogue, and to develop and implement country strategies in support of sound development assistance. It typically includes country or sector studies and strategies, country evaluations, discussion papers, etc. The Paris Declaration recognises that donors have a responsibility to ensure that the analytical work they commission is undertaken jointly, as much as possible. Doing country analytical work jointly has a number of benefits. It helps curb transaction costs for partner authorities, avoid unnecessary duplicative work and foster common understanding between donors. Donors need to draw on partner countries' own analytical work and, where appropriate, work with government and other donors. Indicator 10b measures the proportion of country analytic work that is undertaken jointly, as much as possible.

TABLE 17.8:
How much country analysis
is co-ordinated?

	Co-ordinated donor analytical work* (analyses) a	Total donor analytical work (analyses) b	2005 (for reference)	2007 c = a / b
African Development Bank	0	0	0%	--
Austria	0	0	--	--
Belgium	0	0	--	--
Canada	0	0	75%	--
European Commission	7	7	100%	100%
Finland	5	8	--	63%
France	2	3	--	67%
Germany	0	0	100%	--
Global Fund	0	2	--	0%
IFAD	1	1	--	100%
Ireland	0	0	--	--
Italy	4	7	--	57%
Japan	0	1	50%	0%
Korea	0	1	--	0%
Netherlands	0	3	100%	0%
Norway	1	1	50%	100%
Sweden	0	0	--	--
United Kingdom	4	5	75%	80%
United Nations	30	34	100%	88%
United States	3	3	--	100%
World Bank	0	6	38%	0%
Total	43	82	50%	52%

* The total of co-ordinated analytical work has been adjusted to avoid double-counting. A discount factor of 25% is applied.

In the 2008 Survey for Ethiopia, Indicator 10b shows an increase to 70% from the 50% reported in the 2006 Baseline Survey. Encouragingly, this rise was in the context of a near doubling in the volume of country analytical work from 43 to 82 units. Assuming that the figures for joint analytical work are accurate, Ethiopia has met the 2010 target of 66% of country analytical work being co-ordinated. The DAG has agreed on a common framework for identifying priority analytical work and for sharing responsibilities across donors to improve co-ordination. Thematic working groups are also being asked to co-ordinate analysis for their sectors. If these actions are implemented – and if both donors and government increase their efforts in this regard – further progress on the co-ordination of country analytical work is possible. ■

MANAGING FOR RESULTS

THE PARIS DECLARATION CALLS ON donors and partner countries to make a joint commitment to managing for development results – *i.e.* to manage resources according to desired results. This implies defining desired results and measuring progress toward them, as well as using information on results to improve decision making and performance. It also implies strengthening capacity to undertake such management and helping to increase the demand for a focus on results (*i.e.* adopt a results-based monitoring framework).

Indicator 11 utilises data collected as part of the World Bank’s review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The review focuses on three particular aspects of a robust results-based monitoring framework: the quality of the information generated; stakeholder access to the information; and the extent to which such information is utilised within a country-level monitoring and evaluation system.

The assessments are expressed in scores running from A (high) to E (low), with B representing a “largely developed results-based monitoring framework.” The 2010 target is to reduce by one-third the proportion of countries lacking transparent and monitorable results-based monitoring frameworks (*i.e.* reduce by one-third the number of countries not attaining at least a B rating).

In the 2006 Baseline Survey, the World Bank’s Aid Effectiveness Review gave Ethiopia a rating of C for its framework for reporting and performance assessment (*i.e.* a results-based monitoring framework). This put the country in the same category as 59% of assessed countries taking part in the 2006 Baseline Survey and indicated that progress is being made, though it could be better and the basis exists for even further progress.

Ethiopia’s rating remained at C in the 2008 Survey, suggesting that no further progress has been made. However, several initiatives should help to improve the country’s reporting and assessment system including the establishment of a monitoring and evaluation framework for assessing progress against the national development strategy, ongoing efforts to improve national statistical capacity, and the presence of regular government-donor joint review forums to review performance and feed back into decision making. Donors consider that the PASDEP provides scope for developing a core set of indicators. One challenge is reorienting surveys to capture the dynamism of activities at sector level. Regardless, work will need to be carried out if Ethiopia is to meet the 2010 target of moving up one grade. ■

MUTUAL ACCOUNTABILITY

THE PARIS DECLARATION RECOGNISES that for aid to be truly effective, stronger and more balanced accountability mechanisms are required at all levels. In particular, aid is more effective when both donors and partner country governments are accountable – to their respective publics and to each other – for the use of resources and management to achieve development results. The Paris Declaration calls for donors and partner countries to jointly assess (through existing country-level mechanisms) mutual progress in implementing agreed commitments on aid effectiveness, including commitments made under the Paris Declaration.

Indicator 12 is concerned with the specific question of whether there is a country-level mechanism for mutual assessment of progress on the partnership commitments arising from the Rome or Paris Declarations, or from local harmonisation and alignment plans. The 2010 target is for all partner countries to have in place such mechanisms.

INDICATOR 11

Do countries have results-based monitoring frameworks?

INDICATOR 12

Do countries have reviews of mutual accountability?

In 2005, the government and donors in Ethiopia drafted a Joint Declaration on Harmonisation, Alignment and Aid Effectiveness, which contained indicators and targets for both parties. The Declaration had not yet been finalised, but work is ongoing to replace it with selected identified actions to meet the 2010 targets. An annual progress review, regular high-level forums and sectoral joint reviews were conducted to review agreed activities. The assessment in 2005 was that a mechanism for mutual accountability exists and that Ethiopia would be judged to have achieved the target for mutual accountability by 2010. While further progress has been made, more work will have to be carried out to strengthen mutual accountability mechanisms. ■

PROGRESS SINCE 2005 AND PRIORITIES FOR 2010

PROGRESS TOWARDS GREATER AID EFFECTIVENESS in Ethiopia is very mixed. Both government and donors are committed to the Paris Declaration, and the targets for Indicators 1, 2a, 4, 8, 9, 10b and 12 have been met. However, as the 2008 Survey shows without renewed and strengthened commitment from both government and donors, to sustain and progress on the achievements. Meeting the remaining 2010 targets will be a challenge. If progress is to be made, the government will need to show greater leadership and donors will need to work with the government to build its capacity and to use the capacity created. Progress in both harmonisation and alignment has been mixed: the government and donors have responsibility to work jointly to address the various challenges identified in each indicator. On country systems, donors and the government need to take concerted actions to address some of the identified problems, in terms of improving the quality of systems and also increasing their use by donors. This is a particular challenge at local level. To date, there is no shared understanding between the donors and the government on the level of progress made under managing for results, as the government questions the assessment provided by the World Bank. ■

SUMMARY

TABLE 17.9

INDICATORS		2005 REFERENCE	2007	2010 TARGET
1	Operational development strategies	C	B	B or A
2a	Reliable public financial management (PFM) systems	3,5	4,0	4,0
2b	Reliable procurement systems	Not available	Not available	Not applicable
3	Aid flows are aligned on national priorities	74%	62%	87%
4	Strengthen capacity by co-ordinated support	27%	67%	50%
5a	Use of country PFM systems	45%	47%	63%
5b	Use of country procurement systems	43%	41%	Not applicable
6	Strengthen capacity by avoiding parallel PIUs	103	56	34
7	Aid is more predictable	96%	73%	98%
8	Aid is untied	39%	82%	More than 39%
9	Use of common arrangements or procedures	53%	66%	66%
10a	Joint missions	27%	22%	40%
10b	Joint country analytical work	50%	52%	66%
11	Results-based monitoring frameworks	C	C	B or A
12	Mutual accountability	Yes	Yes	Yes

CONTRIBUTORS

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ACRONYMS

ADLI	Agricultural Development-Led Industrialisation
AMP	Aid Management Platform
CPIA	Country Policy and Institutional Analysis
DAC	Development Assistance Committee
DAG	Development Assistance Group
GNI	gross national income
MEFF	Macroeconomic and Fiscal Framework
ODA	Official Development Assistance
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PBA	programme-based approaches
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PIU	project implementation units

