

**Evaluation of the Commission of the European  
Union's co-operation with Ethiopia  
Country Level Evaluation**

**Final Report  
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**The opinions expressed in this document represent the views of the authors, which are not necessarily shared either by the Commission of the European Union or by the authorities of the countries concerned.**

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## List of Acronyms

AA	Addis Ababa
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
ADLI	Agricultural Development Led Industrialisation
ADM	African Diaspora Marketplace
AfDB	African Development Bank
AGP	Agricultural Growth Programme
AMIS	African Union Mission in Sudan
ANC	African National Congress
APL	Adaptable Program Loan
APR	Annual Progress Report
ARV	Antiretroviral
AU	African Union
AUO	African Union Organisation
BoFEDs	Bureau of Finance and Economic Development
BPOA	Brussels Programme of Action
BPR	Business Process Reengineering
CAADP	Comprehensive Africa Agriculture Development Programme
CAO	Civic Advocacy Organisation
CB	Capacity-building
CBOs	Community Based Organisations
CBS	Capacity-building Support
CCI	Cross-Cutting Issues
CD	Capacity Development
CEWARM	Conflict Early Warning and Response Mechanism
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CIFA	Comprehensive Integrated Fiduciary Assessment
COMESA	Common Market for Eastern and Southern Africa
COWI	Consultancy with Engineering, Environmental Science and Economics
CPI	Consumer Price Index
CPMR	Conflict Prevention, Management and Resolution
CPA	Common Property Resources
CS	Civil Society
CSA	Charities and Societies Agency
CSE	Conservation Strategy for Ethiopia
CSF	Civil Society Fund
CSO	Civil Society Organisation
CSP	Country Strategy Paper
CSSP	Civil Society Support Programme
CTF	Cotonou Task Force
DAC	Development Assistance Committee
DAG	Development Assistance Group
DBS	Donor Budget Support Group
DCI	Domestic Construction Industry
DCT	Donor Coordination Team
DDT	Dichlorodiphenyltrichloroethane
DEC	Development Expertise Centre
DEL	Delegation
DESY	Data Collection System
DFID	Department for International Development
DHS	Demographic and Health Survey
D.K.	Development Company
DMFSS	Disaster Management and Food Security Sector

DMO	District Maintenance Organisation
DoL	Division of Labour
DP	Development Partners
DPPA	Disaster Prevention and Preparedness Agency
DPT3	Diphtheria, Pertussis and Tetanus
DRMC	District Road Maintenance Contractor
DRMFS(S)	Disaster Risk Management and Food Security (Sector)
DWG	Donor Working Group
EAC	Ethiopian Americans Council
ECHO	European Commission Humanitarian Aid
EDF	European Development Fund
EFSA	Emergency Food Security Assessment
EFSRA	Emergency Food Security Reverse Administration
EFY	Ethiopian Fiscal Year
EGTE	Ethiopian Grain Trade Enterprise
EIA	Environmental Impact Assessment
EIDHR	European Instrument for Democracy and Human Rights
EIFDDA	Ethiopian Interfaith Forum for Development Dialogue and Action
EMCP	Expenditure Management and Control Programme
EMP	Environmental Management Plan
ENCONCL	NGO in Ethiopia
ENCU	Emergency Nutrition Coordination Unit
EOM	Electoral Observation Mission
EPG	Ethiopian Partnership Group
EPRDF	Ethiopian People's Revolutionary Democratic Front
EQ	Evaluation Question
ERA	Ethiopian Roads Authority
ERTTP	Ethiopian Rural Travel and Transport Programme
ESA	Eastern and Southern Africa
ESC	Ethiopian Shipping Lines
ETB	Ethiopian Birr
ETR	End-Term Review
EU	European Union
EUNAVFOR	European Naval Force Somalia
EUTM	European Union Training Mission in Somalia
FAO	Food and Agriculture Organisation
FBG	Federal Block Grants
FDRE	Federal Democratic Republic of Ethiopia
FIDIC	International Federation of Consulting Engineers
FM	Financial Management
FMoH	Federal Ministry of Health
FSCB	Food Security Coordination Bureau
FSP	Food Security Programme
FSS	Forum for Social Studies
FSCD	Food Security Coordination Directorate
FTA	Free Trade Agreement
FTAPS	Financial Transparency and Accountability Survey
FTC	Federal Trade Commission
FTI	Fast-Track Initiative
FY	Fiscal Year
GAVI	Global Alliance for Vaccines and Immunisation
GBS	General Budget Support
GDP	Gross Domestic Product
GEQIP	General Education Quality Improvement Package
GFTAM	Global Fund against AIDS, Malaria and TB

GIEWS	Global Information and Early Warning System
GIS	Geographic Information Services
GoE	Government of Ethiopia
GoK	Government of Kenya
GONGOs	Government Organised Non Governmental Organisations
GPI	Gender Parity Index
GTZ	Gesellschaft für Technische Zusammenarbeit
GTZ-IS	Gesellschaft für Technische Zusammenarbeit - International Services
HABP	Household Assets Building Programme
HDM	Highway Design and Maintenance Standards Model
HEA	Household Economy Approach
HEP	Health Extension Programme
HEW	Health Extension Workers
HICES	Household Income, Consumption and Expenditure Survey
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HLF	High Level Forum
HQ	Headquarters
HR	Human Resources
HRW	Human Rights Watch
HSEP	Health Services Extension Program
HSPF	Health Sector Pooled Funds
IBRD	International Bank for Reconstruction and Development
ICL	International Constitutional Law
ICPAT	International Capacity-building Programme Against Terrorism
IDA	International Development Association
IDP	Internally Displaced Persons
IFAD	International Fund for Agricultural Development
IFIS	International Financial Institutions
IFPRI	International Food Policy Research Institute
IFRS	International Financial Reporting Standards
IfS	International Food Standard
IGAD	Inter Governmental Authority
ILO	International Labour Organisation
IMF	International Monetary Fund
IMT	International Money Transfer
INGOs	International Non-Governmental Organisation
IRCC	Inter Regional Coordination Committee
IRS	Indoor Residual Spraying
ISS	Institute for Security Studies
IT	Information Technology
ITN	Insecticide-treated Bed Nets
JAR	Joint Annual Review
JBAR	Joint Budget and Aid Reviews
JC	Judgement Criteria
JICA	Japan International Cooperation Agency
JRIS	Joint Review and Implementation Support Review
KfW	Kreditanstalt für Wiederaufbau
LACs	Land Use and Administration Committees
LFM	Logical Framework Matrix
LIG	Local Investment Grant
LNGOs	Local Non-Governmental Organisation
LRRD	Linking relief, rehabilitation and development
M&E	Monitoring and Evaluation
MCB	Ministry of Capacity-building
MDGs	Millennium Development Goals
MDTF	Multi-Donor Trust Fund

MEFF	Macro - Economic and Fiscal Framework
MFI	Microfinance Institution
MIS	Malaria Indicator Survey
MoARD	Ministry of Agriculture and Rural Development
MoFED	Ministry of Finance & Economic Development
MoH	Ministry of Health
MONGOs	My Own Non Governmental Organisations
MoTaC/MOTC	Ministry of Transport & Communication
MoU	Memorandum of Understanding
MR	Monitoring Report
MTEF	Medium-Term Expenditure Framework
MTR	Mid-Term Review
MTSE	Maritime Transit Services Enterprise
MWUD	Ministry of Works and Urban Development
NAO	National Authorisation Office
NDF	Nordic Development Fund
NEPAD	New Partnership for Africa's Development
NER	Net Primary Enrolment Ratio
NEWA	Network of Ethiopian Women's Associations
NGOs	Non Governmental Organisation
NIP	National Indicative Programme
NRSC	National Road Safety Council
NSA	Non-State Actors
NTMP	National Transport Master Plan
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
OFAG	Office of the Federal Auditor General
OFSP	Other Food Security Programme
OLF	Oromo Liberation Front
ONLF	Ogaden National Liberation Front
OPRC	Output and Performance Based Road Contracts
ORAG	Office of Regional Auditors General
ORF	Office of Road Fund
OSJE	Organisation for Social Justice in Ethiopia
OVC	Orphans and Vulnerable Children
PAD	Project Appraisal Document
PANE	Poverty Action Network in Ethiopia
PASDEP	Plan for Accelerated Sustainable Development to End Poverty
PBC	Performance Based Contracts
PBS	Protection of Basic Services
PEFA	Public Expenditure and Financial Accountability
PEPFAR	President's Emergency Plan For AIDS Relief
PEP	Public Expenditure Programme
PER	Public Expenditure Review
PFM	Participatory Forest Management
PFMC	Public Financial Management Committee
PFSA	Pharmaceutical Fund and Supply Agency
PIA	Project Influence Areas
PIF	Agricultural Sector Policy and Investment Framework
PLWHA	People Living With HIV/AIDS
PMF	Public Financial Management
PMMS	Performance Management and Monitoring System
PMS	Pavement Management System
PMU	Programme Management Unit



PPESA	Privatisation and Public Enterprises Supervising Authority
PPP	Public Private Partnership
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Sector Capacity-building Programme
PSNP	Productive Safety Net Programme
PTA	Preferential Trade Area for Eastern and South African states
PTE	Poverty Target Expenditure
PW	Public Works
QAS	Quality Assistance System
QSDS	Quality Service Delivery System
RECS	Regional Economic Communities
RED&FS	Rural Economic Development and Food Security
RF	Road Fund
RIO	Regional Integration Organisation
RIP	Regional Indicative Programme
RMI	Regional Management Institute
RNE	Royal Netherlands Embassy
ROM	Result Oriented Monitoring
RRA	Regional Road Authority
RSDP	Road Sector Development Programme
RTTP	Rural Transport and Travel Programme
SA	Social Accountability
SAFE	Strategy Combining Surgery, Antibiotics, Facial Cleanliness, and Environmental Improvement
SALW	Small Arms and Light Weapons
SBS	Sector Budget Support
SDPRP	Sustainable Development and Poverty Reduction Programme
SDPRSP	Sustainable Development and Poverty Reduction Strategy Paper
SEA	Strategic Environmental Assessment
SIAC	Statistical Information for Application of Climate Data
SIDA	Swedish International Development Cooperation Agency
SLM	Sustainable Land Management
SN	Safety Nets
SNNP	Ethiopia's Southern Nations Nationalities and People's
SNNPR	Ethiopia's Southern Nations Nationalities and People's Region
SSA	Sub-Saharan Africa
SSATP	Sub-Saharan Africa Transport Policy Program
SWAPS	Sector Wide Approaches
SWC	Soil and Water Conservation
SWG	Sector Working Group
TA	Technical Assistance
TAU	Technical Assistance Unit
TB	Tuberculosis
TC	Term Contracts
ToRs	Terms of Reference
TPO	Transport Poverty Observatory
TSWG	Transport Sector Working Group
TWG	Technical Working Group
UN	United Nations
UN ECA	United Nations Economic Commission for Africa
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations International Children's Emergency Fund
US	United States
USAID	United States Agency for International Development

US\$	United States Dollar
VAT	Value Added Tax
VOC	Vehicle Operating Costs
WaSH	Water, Sanitation and Hygiene
WB	World Bank
WFP	World Food Programme
WHO	World Health Organisation
WIDP	Woreda Integrated Development Plans

## Executive summary

### The main objective of this evaluation was to draw out lessons for future EU cooperation.

This report presents the findings of the 2010 Country Level Evaluation of the European Union's support to Ethiopia. The evaluation was carried out to provide meaningful feedback to the European Commission, the Member States and the general public on the achievements of the EU cooperation programme with Ethiopia between 2004 and 2008, an earlier period of cooperation having been covered by the 2003 Country-Level Evaluation. The lessons from this evaluation are intended to be used to inform the current and future EU support to Ethiopia. Lessons learned from the results of the EU's support to Ethiopia may also be fruitful for other ACP countries facing similar high economic growth prospects and governance issues.

The evaluation covered the EU cooperation programme with Ethiopia during the period of economic recovery which followed the war with Eritrea and it also included the 2005 post-election violence and the subsequent cooling of Ethiopia-donor relations. The evaluators focused not only on the EU's assistance during implementation of the CSP and 9<sup>th</sup> EDF NIP (2002-2007) (including a variety of instruments), but also on the choices it made for planning aid disbursements under the 10<sup>th</sup> EDF (2008-2013).

### Methodology: How was the evaluation done?

The evaluation answers ten key Evaluation Questions (EQs) that cover major parts of the EU strategy and its implementation. The evaluators formulated these questions on the basis of an analysis of the joint EU-Government of Ethiopia Country Strategy Papers and internal policy documents.

The answers to the EQs take into account a representative selection of the projects that the EU had financed in Ethiopia. The evaluators selected those projects in consultation with Commission staff. The projects and their combined contribution to the development of Ethiopia were then analysed on the basis of project evaluations,

internal progress reports, and monitoring data and documentation from other development partners (DPs) and from international NGOs and academics. During a subsequent two-week visit to Ethiopia the evaluators used interviews, focus group discussions and visits to project sites to validate the hypotheses they had formulated on the basis of their document review. Overall the evaluators carried out about 110 interviews in Brussels and Ethiopia, held three focus group discussions, and visited ten project sites.

### What is the social and economic context in Ethiopia?

Ethiopia is one of the largest countries in Sub-Saharan Africa (SSA). It is the second most populous nation in Africa with a population of 85 million inhabitants (2011), which is rapidly growing. Of the 184 countries on the Human Development Index, Ethiopia is ranked only 174 (2011 report) but since 2000 has exhibited an impressive trend of economic growth, far above the SSA average. Nevertheless, extreme poverty is pervasive in Ethiopia.

Reflecting its population size, relative political stability (since 1991), economic growth, and resource endowment (especially water), Ethiopia commands a significant economic and geopolitical position in the Horn of Africa, which is one of the most conflict-prone regions in the world and one of the poorest.

The economy has been subject to frequent shocks (including military conflicts and natural disasters). In most recent years double-digit economic growth has run ahead of population growth, allowing a reduction in poverty rates. Income inequality is however low.

There has been notable progress in recent years towards most of the Millennium Development Goals (MDGs), particularly a dramatic increase in primary school enrolment.

### How did the EU cooperate with Ethiopia?

Most of the EU activities implemented between 2004 and 2008 were funded under the 9<sup>th</sup> EDF strategic response framework

(CSP and NIP), with a global envelope of €530m. Additional resources came from thematic budget lines equivalent to half that amount.

The three main sectors of intervention by the Commission during the reference period were first the road sector (€239m), with two successive sector budget support programmes; second, food security in support of the Productive Safety Net programme (PSNP, €240m); and third, education and health in the framework of the Protection of Basic Services (PBS) programme (€150m), a multi-donor programme in support of decentralised service delivery. Several programmes of less financial weight were implemented to underpin the crosscutting commitment of the Commission to capacity-building (PSCAP) and Civil Society empowerment (Civil Society Fund).

For the 10<sup>th</sup> EDF the EU retained the same strategic framework across the following three focal sectors:

- (i) Transport and Regional Integration;
- (ii) Rural Development and Food Security; and
- (iii) Macro-Economic Support and Governance.

For the first two the scope is significantly wider than in the previous programming period. Envelope A amounts to €644m, an increase of 21.5% compared to the allocation under the 9<sup>th</sup> EDF.

### What were the findings of the evaluation?

#### *On education, health and the related social accountability component*

- The Protection of Basic Services programme has improved aid effectiveness when judged against project-based aid, with an improving internal trend over time, not least in PBS II. This is an impressive achievement, which was made necessary by the EU decision to terminate General Budget Support following the events that followed the May 2005 elections. The EU and the other development partners responded quickly, devising an appropriate and politically feasible alternative. However,

there is still only limited evidence to suggest that PBS is fully capable of matching non-targeted budget support in terms of promoting aid effectiveness. PBS also has limitations in relation to the entry points it provides for dialogue on systemic governance issues. Moreover, there are some recent indications that PBS is ineffective in preventing aid fragmentation in core social service sectors, something that is typically captured under a general budget support framework. One area in which PBS has hitherto delivered unparalleled superior performance is in terms of overall aid predictability in cases where general budget support proved to have limited political robustness.

- PBS has made a change to the resources available to decentralised service delivery at a time when the suspension of general budget support threatened to worsen the plight of Ethiopia's poorest. Using regional and lower level government systems to channel the majority of this funding was the only realistic and sustainable method of transferring resources, given the significant volume of funds. Fungibility is limited by the strong government commitment to protecting basic services. PBS has, through its close alignment with government systems, worked to underpin and augment this commitment. This is an important and significant achievement that has made a substantial contribution to Ethiopia's efforts towards achieving the MDGs. Thus from 2004 to 2008 net school enrolment increased by 36%, implying that four million more children now have access to education. In the same period the number of health posts more than doubled, supporting the fall in child mortality rates and malaria-related deaths.

#### *On the road sector*

- The EU's contribution to improving the institutional framework was instrumental in providing a global incentive for improving performance through two successive Sector Policy Support Programmes (SPSP) and also through

targeting technical assistance on jointly-identified shortcomings in programming and contract management at federal and decentralised levels. Strong ownership by the federal Ethiopian Road Authority (ERA) of the sector strategy, and the finally adopted institutional reform, are providing reasonable guarantees of sustainability. However the road sector budget support SPSP approach provided insufficient safeguards on applying best practice with a view to increasing absorption capacities and the reliability of road maintenance performance measures. Only in recent years has the Commission succeeded in increasing government concern about road transport services, with no definitive steps confirmed yet.

- The EU contributed to increased economic accessibility, both in rural areas and in external markets, by supporting the improvement of the road network, its density and condition through its two SPSPs. However this contribution, aligned on the objectives of the government's Road Sector Development Plans (RSDP), was insufficiently focused on rural road extension and maintenance, even in the Commission-driven content of the policy dialogue. Rural communities' access to markets and agricultural inputs was limited while the focus on the Southern route to the port of Djibouti did not contribute to releasing the pressure on the Northern route, the condition of which was steadily deteriorating. Even so, national average and sampled itineraries indicate an overall improvement in road density, travel time and accessibility.

#### *On food security and agriculture*

- With the PSNP, launched in 2005, an important step was made in the long overdue policy shift from the previously-applied emergency food aid approaches to more development-oriented food security programmes for tackling the prevalent problem of chronic food insecurity. The PSNP has become the major national and EU food security intervention in the country. It is considered as an example of effective donor harmonisation and of functioning

coordination and cooperation mechanisms between donors and the government.

- Substantial agriculture and, more generally, economic growth in recent years has brought about a general improvement of the agricultural and food security situation in Ethiopia. PSNP has helped the target group of poor and food insecure households to keep up with this development, to reduce their food gaps, and to start building up assets. Improvements in the household food security situation proved to be particularly significant when PSNP transfers were combined with investment support in agriculture.
- In spite of these positive effects of PSNP, only 280,000 farmers graduated from the need for further assistance, compared with the 5 million initially expected. The issue of delayed payments of PSNP's work for cash food security schemes is still a common phenomenon, severely hampering overall programme performance.
- Food aid will continue to be required as an emergency response. By transferring the responsibility for EU food aid operations to ECHO in 2007, the EU has made it clear that eventual further EU food aid to Ethiopia will be confined to humanitarian relief only.
- EU support through NGO co-financing complements direct Government PSNP support in the fields of food security and rural development in respect of filling gaps, covering areas other than those supported by PSNP and applying participative, community-based and innovative approaches.

#### *On aid effectiveness*

- The full potential of aid modality combinations was not exploited by the Commission in terms of introducing more flexibility or more adjustment to institutional capacity or to emerging needs as articulated by the government.
- The mix was still largely imposed on the one hand by Commission instruments, and on the other hand by high-level decisions taken on grounds other than technical rationale.

- The attempt to improve aid effectiveness through rationalisation of the division of labour between development partners was quickly restricted to the European Union itself, with no clear benefits over the period.

#### *On strengthening decentralisation*

- The Commission has made a substantial contribution to the decentralisation process, although not primarily in the form of traditional capacity-building activities but rather through substantiating and legitimising the new local authorities by providing finance through the PBS
- Direct support through PSCAP (e.g. the District Level Decentralisation sub-programme) has not been as effective. The approach used by PSCAP of promoting bottom-up participation through, for example, good governance packages mediated primarily through traditional donor-funded NGOs has presented some challenges. Generally the evaluation found that accountability and broader governance improvements are not primarily related to such efforts but work mostly in a top-down fashion, strong party discipline and traditional lines of authority being core ingredients.

#### *On Civil Society empowerment*

The EU faced a drastic change in government policy towards empowerment of civil society after the 2005 post-electoral crisis, which proved to be a significant setback in the progress towards democratic governance gained during support for the government's elaboration of the on-going 5-year development plan (PASDEP).

This setback was confirmed in the 2009 Charities and Societies Law which restricted governance-related activities by those Civil Society organisations (CSO) that were largely (above 10%) externally funded.

The EU-supported programmes are the only source that can be drawn on in support of Ethiopian policy-rights-based NGOs, as the government agreed to consider them as national funding sources.

Most development and civil rights CSOs have already moved back to service delivery as a result of the new Law.

#### *On contributing to conflict prevention*

The EU committed itself to addressing the root causes of conflict with the government during EDF10. Despite an initial comprehensive analysis, no specific action was taken. The lack of demand from the government in this respect was a driving factor behind this change.

#### 1. Main Conclusions

Against two severe setbacks to its governance agenda in Ethiopia, the EU succeeded in keeping its contribution focused on addressing the needs of the population through programmes in its three main sectors of intervention (basic services, food security and road infrastructures). In this manner it accompanied and supported significant MDG achievements by the government.

In the particular situation of Ethiopia - surrounded as it is notably by Somalia and Sudan - significant EU contributions to development in Ethiopia were those relating to regional peace and stability. These underlying geostrategic stakes contributed to an acceptance that EU cooperation was implemented with an unbalanced policy dialogue<sup>1</sup> (global and sector-wise) and at the cost of failing to empower Civil Society.

Notwithstanding its will after the 2005 electoral crisis to articulate a certain distancing from the federal government by funding local governments for service delivery, the EU nonetheless progressively rebuilt a privileged relation of mutual confidence with GoE that may provide an opportunity to re-launch an overall policy dialogue.

The main Conclusions are the following:

- By aligning most of its support on government policies and programmes through various types of budget support (global, sectoral, targeted), the EU was particularly effective in fighting poverty.
- The alignment of EU support on government policies and programmes contributed to reinforcing an already strong degree of ownership, thus ensuring sustainability.

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<sup>1</sup> Policy dialogue is understood within this report as the middle level of dialogue with the partner country, political dialogue being dialogue on the highest political level, and technical dialogue at operational and implementation level.

- Those gains were not equally matched in areas as fundamental to the long-term development prospects of Ethiopia as democratic governance and decentralisation.
- The effectiveness and inclusiveness of policy dialogue have been limited even in EU focal sectors.
- The performance evaluation framework agreed with the government for the bulk of EU budget support was too aligned on five-year sectoral programming documents to be a true incentive for policy reform or even significant operational restructuring.
- The balance between EU support to food security and agricultural development, although improved, still predominantly leans towards food security.
- Local government capacity shortcomings remained out of EU reach, either directly (PSCAP) or indirectly (PBS, Road SPSP, PSNP). They impeded the effectiveness and impact of EU-supported programmes, particularly in emerging regions.
- EU-sponsored innovative approaches in PBS and PSNP implementation (essentially social accountability and CSOs involvement) were adopted by the government, even though it provided only a limited financial contribution.
- The data provided by the government monitoring systems were not adequate for fully assessing the cooperation programme's performance. Their reliability was too questionable for them to be true incentives for policy reforms in sector policy dialogue.

The team also identified 28 operational conclusions on evaluated programmes.

### Main Recommendations

The five most important recommendations flowing from this evaluation are listed below:

1. **Prescribe the policy dialogue organisation** best suited to EU objectives and instruments
2. Modify the allocation structure within sectors **to strengthen EU advocacy capacity and involvement in regional integration and sectoral institutional reforms**
3. Adjust the strategic framework **and the content of policy dialogue** to overcome limits currently faced in **promoting institutional reform and democratic governance**.
4. Reconsider the overall **balance in EU financial support between food security and agricultural development** by focusing progressively on the graduation process and on the subsequent phases of households' accumulation of agricultural assets
5. **Prepare for the resumption of GBS** while reducing its lack of predictability by defining a fixed tranche that is both more robust in the face of politically-induced uncertainties and also more closely linked to development outcomes.

Figure 1: Map of the federal Republic of Ethiopia





## 1 Introduction

This evaluation of the European Commission's support to Ethiopia (country-level evaluation) is part of the 2009 evaluation programme approved by the Directorates-General for External Relations and Development. It is being carried out under Consortium Contract EVA 2007/geo-acp. The consortium is composed of the following companies: ECO Consult Sepp & Busacker Partnerschaft (Germany – Lead Company), AGEG Consultants eG, (Germany), APRI international (Belgium), Euronet Consulting EEIG (Belgium), Institut de Recherche et d'Applications des Méthodes de Développement (IRAM, France) and Nordic Consulting Group (Denmark). The Evaluation Terms of Reference are included as an annex.

### Scope of the evaluation

The evaluation covers the Commission's co-operation strategy with Ethiopia and its implementation over the period 2004-2008. We are fully aware that the evaluation should be forward-looking and draw out lessons that will help fine-tune implementation of the present strategy from 2008 to 2013.

The consultant has been expected to assess:

- i. **The relevance and coherence of the Commission's co-operation strategies for the periods 2004-2008 and 2008-2013.** The changes attributable to the CSP addenda in 2004 and 2007 will be integrated into the analysis of the process of adjustment of the EU response strategy. The **consistency of the EU strategy in Ethiopia with the EU's general policy framework for developing countries** will also be considered.
- ii. **The implementation of the Commission's co-operation**, focusing on effectiveness, impact and efficiency for the period 2004-2008 in the focal sectors (transport, macro-economy and food security); on the intended effects during the period of the programming cycle 2008-2013, including consistency with the previous strategy; on the extent of effective use of lessons learned; and on changes in the national context and bilateral relations. By the end of 2009 implementation of the 10<sup>th</sup> EDF programmes had started.
- iii. **The coherence and complementarity of the Commission strategies** with national strategies and with the interventions of other DPs, notably the Member States. **EU value added** is also subject to thorough analysis, notably in the framework of General Budget Support.

For the main EU sectors, the manner in which, and the extent to which, the recommendations of the previous country-level evaluation have been taken into account is assessed.

The investments of the EIB are beyond the scope of this evaluation but the coherence of EIB interventions with EU interventions is analysed.

Thematically the evaluators focus on the sectors requested in the ToR that form the core of the EU strategic response during the 9<sup>th</sup> and 10<sup>th</sup> EDFs. In both Country Strategy Papers the following three focal sectors were identified:

- Transport Infrastructure and Regional Integration
- Macroeconomic Support and Governance
- Food Security and Rural Development

Crosscutting issues (gender, human rights, and environment) are also encompassed by the evaluators' analysis, with an emphasis on synergies identified in the context of improved governance.

The analysis of these sectors and issues covers the whole range of instruments, approaches and financing modalities used by the EU, based on a full inventory of its funding during the period under review.

Another issue targeted by this evaluation is the extent to which synergies and gap filling were in evidence between bilateral and regional EU strategies and programmes (in particular in the framework of cooperation with IGAD and COMESA). The same has been done for thematic budget lines, which are significant contributors in Ethiopia, particularly for food security. Where

relevant the analysis also covers interventions financed by the Peace Facility/Instrument for Stability.

Particular attention is given to the use and contribution of budget support prior to 2005, and to the value added provided by the EU to joint IFI initiatives aimed at reducing food aid dependency in Ethiopia, for example the Protection of Basic Services (PBS) programme funded by the World Bank and the Productive Safety Nets Programme, which started in 2005.

### Objectives of the evaluation

The consultant understands that the main objectives of this evaluation as laid out in the ToR are:

- to provide the relevant external co-operation Services of the EU and the wider public with an *overall independent assessment* of the Commission's past and current cooperation relations with Ethiopia; *and*
- to identify *key lessons* with a view to improving the *current and future strategies* and programmes of the Commission (emphases added by the consultant).

The consultant sees these objectives in the context of the overall priorities of the European Commission. The systematic and timely evaluation of its expenditure programmes is one of these priorities. As stated in the ToR, evaluations of this kind are intended to:

- account for the management - that is the use made - of the allocated funds; *and*
- promote a lesson-learning culture throughout the organisation.

It is therefore important that the evaluation strikes an appropriate balance between being (i) sufficiently comprehensive to fulfil the above accountability requirement and (ii) specific enough to yield useful and relevant lessons that can be used by the EU and its partners to increase the degree of results-orientation of its support.

## 2 Methodology of the evaluation

In line with the Terms of Reference and based on the methodology developed by the EU's Joint Evaluation Unit, the Country Level Evaluation for Ethiopia has been structured in five phases:

- (i) a preparation phase;
- (ii) a desk phase, divided into an *inception phase* to further define the scope of the evaluation by defining a series of Evaluation Questions (EQs) and related Judgement Criteria (JC) and Indicators (see below); and the *conclusion of the desk phase*, involving compilation of documented evidence for each of the indicators and formulation of preliminary answers or hypotheses for each of the EQs;
- (iii) a field phase; to collect additional information and to validate the preliminary hypotheses formulated during the desk phase;
- (iv) a synthesis phase, bringing together the results of the desk and field phases; *and finally*
- (v) a dissemination phase in Ethiopia, with final feedback from stakeholders and the Delegation.

This synthesis report

- reviews the context of EU assistance to Ethiopia;
- presents the EU's overall and selected sector-specific intervention logic in Ethiopia;
- presents the findings regarding the Judgment Criteria and Indicators that measure progress towards the objectives the EU has set for its involvement in Ethiopia (see evaluation matrix in annex); *and*
- provides an analysis of the contribution that the EU has made to improving the situation in Ethiopia by presenting preliminary answers, conclusions and hypotheses on the foregoing.

### 2.1 EVALUATION QUESTIONS, JUDGMENT CRITERIA AND INDICATORS

The Evaluation Questions (EQs) are based on:

- the stated objectives, priorities and principles, keeping in mind the need for a clear and useful overall assessment;
- expectations expressed in the ToR and by Reference Group members and other informants;
- the usefulness of the answers in relation to the purpose of this evaluation; *and*
- the need to pay due attention to difficult criteria such as efficiency or sustainability.

The EQs were at a later stage extensively scrutinised by the Joint Evaluation Unit (JEU) and the Delegation.

The evaluation is based on the five evaluation criteria defined by the OECD-DAC (relevance, efficiency, effectiveness, impact and sustainability) as well as the criteria of coherence and complementarity in three respects: (1) coherence within the development programme of the Commission, (2) coherence and complementarity with the policies of the partner country, and complementarity with the interventions of the other funding agencies, and (3) coherence and complementarity with other Community policies, along with the value added of the EU's interventions.

The selected EQs, judgement criteria and indicators are presented in the information matrix in the annex with the preliminary findings. Both the judgment criteria and the indicators were formally approved in the inception report and were not changed during the subsequent phases.

#### Evaluation criteria matrix

The evaluation criteria matrix below ensured that all major issues of EU cooperation have been addressed.

Table 1: Correspondence of evaluation questions and evaluation criteria and other issues

Evaluation Questions	DAC - OECD					European Commission				
	Evaluation Criteria					Internal Coherence	Added Value	Key issues		
	Relevance	Effectiveness	Efficiency	Impact	Sustainability			"3 Cs"	Cross-Cutting Issues	Visibility
1 PBS vs GBS	X	x	x	x		x		X		
2 PBS outputs		x	x	X	X	x		X	X	
3 Road maintenance reforms		x	x	x	X	x		X	X	
4 Road economic accessibility	X	x	x	X		x				
5 Food Security	X	x	x	x	X	x				
6 Farm assets		x	x	X		x		X	X	
7 Decentralized capacity building		x	x	x	x	x		X		
8 Civil society empowerment		x	x	X	X	x				
9 Conflict prevention	X	x	x	x		x		X	X	
10 Mix of aid modalities		X	X			X	x	x		

X	Major	x	Minor
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Added value is not analysed specifically in the EQs owing to the high concentration of DPs in Ethiopia and the already high level of coordination achieved through the Development Aid Group (DAG). It is expected to assess value added in a concluding section, along with visibility.

The relationship between the EQs and the reconstructed diagram of effects is shown in figure 6 on page 24.

## 2.2 DATA COLLECTION PROCESS

In the preparation of this synthesis report, the evaluators have, based on the hypotheses identified in the desk report:

- collected updated data and documentation (evaluation and monitoring reports, programming documents, activity reports) from the European Union (EU) Delegation in Addis Ababa, and from EU project managers, DPs, and government services<sup>2</sup>;
- conducted 112 interviews with EU officials in the Delegation; key stakeholders in Addis Ababa; contacts in two regions selected jointly with the Delegation to represent contrasting situations typifying Ethiopia's diversity; and organised single-focus groups in each region;
- as part of the process, visited the sites of current and former EU-financed programme and projects, including:
  - PBS-financed schools and health posts in Abobo (Gambella region)
  - Addis – Jima Road rehabilitation
  - road capacity-building services project with Gambella RRA
  - road SPSP with ERA in Addis Ababa
  - PSNP initiatives in the following locations:
    - Fantale Irrigation Scheme, Woreda, East-Shoa Zone, Rift Valley
    - food distribution site in Chiro, Chiro Woreda, West Hararghe
    - land rehabilitation project site in Jlango, Meta Woreda, East Hararghe, Oromiya Region
    - land rehabilitation project site in Karamille, Goro Godu Woreda, East Hararghe, Oromiya Region
  - PSCAP at federal and regional levels
- convened a team meeting in Addis to discuss the overall strategy for this evaluation.
- analysed the data available and prepared the answers to the Evaluation Questions (findings), the conclusions and the recommendations as presented in this report.

The evaluators selected the programmes to be included in visits and interviews during the field phase to make sure that they would include:

<sup>2</sup> A bibliography of sources used in this report is listed in the annex. All available documentation has been uploaded to a website by which the whole evaluation team can exchange large amounts of data.

- all major primary commitments from 8<sup>th</sup> EDF and 9<sup>th</sup> EDF, notably PBS, PSNP and Road SPSPs;
- the food security thematic budget line projects that were of particular strategic importance for the EU and represented roughly half of the programmable envelope.

A significant proportion of the EU's overall support commitments was included in the field phase. Overall the programmes and projects examined during the field phase, including field visits, interviews and focus groups, accounted for approximately 90% of total commitments from both EDFs.

The evaluation was designed to ensure a high level of data reliability and validity of conclusions by combining the use of qualitative and quantitative data, and to rely on both primary and secondary data sources. The objective was to use the overlapping strengths and weaknesses of different data collection tools to assemble a data set and an overall body of information that would allow the evaluators to check the correctness of information from one source with reference to data from another.

Table 2: Approach to Triangulation of this Evaluation

Evaluation Question	Delegation	National Government	Sub-national Government	Civil Society	Beneficiaries	Other DPs	Data collection methods
1. PBS/services	▲○	▲○	▲○	▲○	▲	▲○	Document analysis, interviews, focus groups
2. PBS/expenditures	▲○	▲○	▲○	▲	▲○	▲○	Document analysis, interviews, field visits,
3. Road sector reform	▲○	▲○	○		▲	▲○	Data and document analysis, interviews, field visit
4. Accessibility	▲○	▲○	▲		▲	▲○	Data and document analysis, interviews, field visits, focus groups, interviews
5. Food insecurity	▲○	▲○	▲	▲○	▲	▲○	Data and document analysis, interviews, focus groups, field visit
6. Agricultural assets	▲○	▲○	▲		▲	▲○	Data and document analysis, interviews, focus groups, field visits
7. Decentralisation	▲○	▲○	▲○	○	▲	▲	Data and document analysis, field visit, interviews, focus group
8. Civil society	▲○	▲○	▲	▲○	▲	○	Data and document analysis, interviews
9. Conflict prevention	▲○	▲				○	Data and document analysis, interviews
10. Aid modalities	▲○	▲○	▲	▲		▲○	Data and document analysis, interviews

▲ = Primary Sources (Interviews, Focus Groups), ○ = Secondary Sources (Evaluations, studies, project reports)

The evaluators used data collected with these different tools and from these different sources in their analysis, through the following steps:

1. Throughout, and with increasing intensity towards the end of the field phase, the evaluation team compiled the emerging findings and crosscutting lessons in brief internal work sessions. The results from these work sessions also helped in the preparation of the PowerPoint Presentation used in the debriefing with the EU Delegation (see below).

2. Prior to the debriefing in the Delegation, the team conducted an internal team workshop to bring together the findings from the different sectors in a more comprehensive way than had been possible during the country visit. The team also began forming an overall assessment of EU support.
3. Before their departure from Ethiopia, the team held a debriefing with the EU Delegation to present the team’s hypotheses at the conclusion of the field phase. This debriefing functioned very much as an opportunity to check the validity and credibility of the team’s preliminary conclusions, or to build on them where necessary.
4. The team also gave a presentation of the findings and conclusions from the country visit to the members of the Reference Group for this evaluation, at EU headquarters in Brussels. As with the debriefing with the EU Delegation in Addis Ababa, the main aim of this meeting was to increase the credibility and validity of the team’s conclusions.
5. During the synthesis phase the team deepened the analysis, finalised the judgements according to the judgement criteria and provided answers to the EQs.

## 2.3 LIMITATIONS

While carrying out this evaluation, the team had to address and respond to a number of constraints, as set out in Table 3:

*Table 3: Main methodological constraints faced during the evaluation*

<b>Constraint</b>	<b>Evaluators’ Response</b>
Limited availability of e-copies of documents in CRIS	The preparatory visit to Ethiopia (1/2010) was useful for obtaining more updated documents directly from heads of sections in the Addis EU Del. The resulting collection of documents provided information on most primary commitments and thus was a good basis for the desk report.
Significant staff turnover in the EU Delegation between 2004 and 2008	The team used interviews with current staff (in Headquarters (HQ) as well as the Delegation) to identify individuals who had been at the EU Delegation in the early years, i.e. between 2004 and 2008. Most important informants could be met in Brussels and in Addis Ababa.
Low initial availability of and access to project staff of closed EU projects	
Limited time available for field visit	Before going to Ethiopia the team attempted to secure interview appointments for at least the first 3-5 days in country, in part with the help of the EU Delegation but also with assistance from other EU stakeholders. The brevity of the time spent in Ethiopia only allowed field visits to two regions whereas a wider sample would have imparted more credibility to the findings.
Importance of budget support in total EU cooperation	By definition, “projects” to be visited by the evaluation team cannot be identified as such. The team use random sampling and indirect sources to gather feedback from the field.

### 3 The Cooperation context

Ethiopia is one of the largest countries in Sub-Saharan Africa (SSA). It is the second most populous nation in Africa with a population of 73.9 million inhabitants, which is rapidly growing. Of the 182 countries on the Human Development Index, Ethiopia is ranked only 175 (referring to the year 2008) but since 2000 has followed an improvement trend above the SSA average.

Ethiopia is endowed with a rich and distinctive cultural heritage. It has been an independent country since ancient times. The country was militarily occupied by Italy in 1935 under the Mussolini regime but never surrendered. It was liberated in 1943. In 1945 Ethiopia became a charter member of the United Nations. Reflecting its population size, political stability (since 1991), economic strength, resource endowment and its role as a regional service centre, Ethiopia commands a significant economic and geopolitical position in the Horn of Africa, which is one of the most conflict-prone regions in the world and one of the poorest.

The economy has been subject to frequent shocks (including military conflicts and natural disasters). In most recent years double-digit economic growth has outstripped population growth, impacting beneficially on poverty levels.

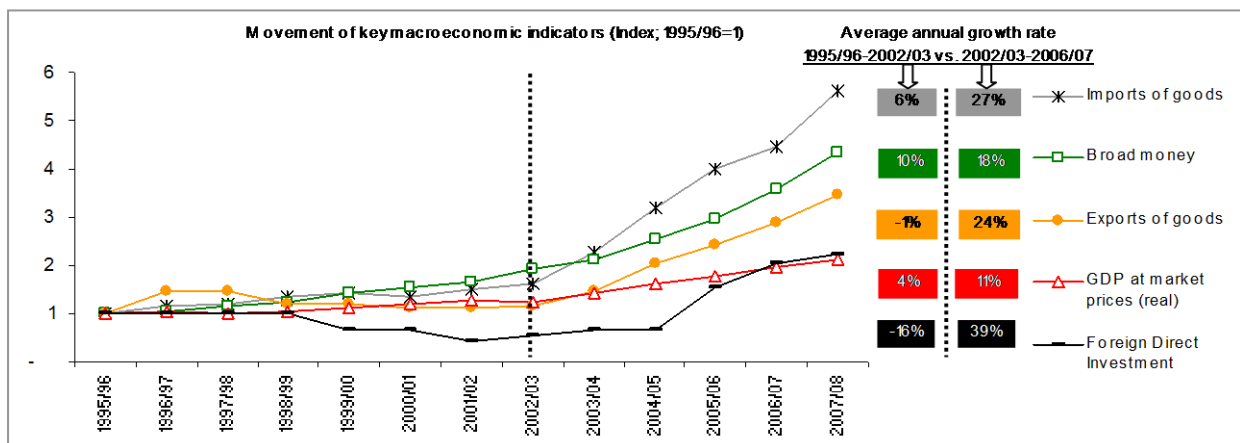
#### 3.1 TRENDS IN ECONOMIC DEVELOPMENT

According to the Government of Ethiopia (GoE), *per capita* GDP in real terms in 2008/09 was US\$235, which is under 30% of the Sub-Saharan Africa average (US\$800). The population is overwhelmingly rural and, even when the weather is favourable, several million people rely on food aid. 78% of the population live on about US\$2 per day. Ethiopia is ranked 157 in 2010 (out of 169) in the UN Human Poverty Index (compared to 130 in 2007).

Since the end of the war with Eritrea in 2000, Ethiopia’s economic performance has improved although it has been accompanied by growing economic imbalances. Since the drought year 2002/03, annual economic growth has averaged 11% per annum (for details see figure 2). The agricultural sector accounts for roughly 43% of GDP<sup>3</sup>, 90% of exports, and 85% of employment. It has grown by 13% per year since 2003/04 as a result of agricultural policies conducive to growth and also to favourable weather conditions (no major drought has occurred since then). The resumption of cyclical droughts is a major risk factor for the economic growth trend in terms both of loss of agricultural production and of upsurges in inflationary tensions (especially food prices).

The current boom is attributable to a combination of cyclical recovery (following the end of the Derg regime) and structural increases in productivity, bringing the economy towards a higher growth path. All three main economic sectors - agriculture, services, and industry – have grown strongly, none recording a growth rate of less than 6% in the past five years<sup>4</sup>.

Figure 2: Trends in key macroeconomic indicators



Source: MoFED and CSA

<sup>3</sup> GOE National Accounts data (2010).

<sup>4</sup> Acces, The Ethiopia Macroeconomic Handbook 2009.

The last ten years of growth were, however, underpinned by major external factors, particularly a sharp increase in the various types of external assistance and the receipt of external debt relief under HIPC. During the 2000-2006 period Ethiopia's economy benefited from a tripling of ODA and HIPC debt relief.

There are clearly also internal factors driving economic growth. The service sector, which accounts for 42% of aggregate output, has grown at a rate of 12% per annum during the last four years, helped by rapid growth in financial services, retail trade and the transport and communication sectors. The industrial sector, which is the smallest of the three sectors of the economy and accounts for 14% of GDP, has also grown at an average rate of around 10% per annum since 2003/04, the construction sector being the biggest driver of industrial growth in the country. On the other hand a 39% growth of FDI in recent years demonstrates increasing investor confidence in Ethiopia's regulatory framework and demand prospects.

Average annual export growth has been over 16% during the past six years. Coffee remains Ethiopia's largest export item but its share is declining owing to reduced world prices while export diversification is under way, notably in terms of high-quality horticulture, livestock products and textile fabrics.

The GoE improved its macroeconomic management and thus contributed to sustaining faster economic growth towards the end of the period under review. Ethiopia has maintained a prudent fiscal stance by keeping its aggregate spending level consistent with its total revenue and grants. The fiscal deficit (including grants) fell from 3.9% of GDP in 2005/06 to 3.1% of GDP in 2006/07 — its lowest level since 2003/04. Fiscal policy has been increasingly counter-cyclical — with relatively low deficits during boom times and high deficits during periods of downturn — a sharp contrast with the pro-cyclical fiscal policy seen in most developing countries.

### **3.2 PRIVATE SECTOR DEVELOPMENT**

Outside agriculture, the share of private investment has nearly doubled since 2002 while FDI inflow has almost tripled, and there is evidence of an increase in the capacity of private firms based on an increase in total factor productivity per worker.

The investment climate improved from a point halfway through the evaluation period as a result of reforms in business licensing, customs clearance, the tax regime, and labour and other business regulations. A consequence is that Ethiopia is now ranked ninth among the SSA countries in the latest WB "*Doing business*" Index rating; but the country still ranks 107 out of 183 economies in the "ease of doing business" index<sup>5</sup>, in slight decrease from 2009 (97<sup>th</sup> out of 179). There was little progress in some of the most severe constraints on the expansion of private sector activity, such as the dominance of para-statal and endowment-fund-owned companies, and the lingering inefficiency of the financial sector which functions poorly in allocating scarce capital to the most productive firms. All public enterprises have been restructured and many state-owned conglomerates have been split into more efficient units. Ethiopia has taken a prudent and cautious approach to privatisation. Medium-sized privatisations have now been successfully completed. Up to 2009 a total of 168 business units had been sold while 140 enterprises remain in state hands.

Still more regional integration is needed to sustain economic activity. Ethiopia participates in the Generalised System of Preferences (GSP) and the Everything but Arms scheme, which grants duty-free and quota-free market access for all products. The country is a member of the Intergovernmental Authority on Development (IGAD). Exports originating in Ethiopia are eligible for benefits under the Africa Growth and Opportunity Act (AGOA). Customs duties generally range from zero to 35%. Tariffs levied on goods originating in COMESA member states incur a lower rate of 10%. Ethiopia is still not a member of the Free Trade Area (FTA). Markets in the region remain small and fragmented, the costs of cross-border business remain high, and more needs to be done to create a truly enabling environment to allow the private

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<sup>5</sup> Doing Business 2010, Ethiopia.



sector to operate more effectively while at the same time maintaining an adequate regulatory framework.

### 3.3 MDG ACHIEVEMENTS AND POVERTY

There has been remarkable progress in recent years towards some of the non-income Millennium Development Goals (MDGs), particularly a dramatic increase in primary school enrolment. Expenditure in pro-poor sectors (especially health and education) increased rapidly during the period, with the support of the DPs.

Primary school enrolment increased, with the focus during the review period shifting progressively in favour of the quality of education. Total primary enrolment went from 51.2% in 2004 to 83.5% in 2009. There has been a considerable reduction in the gender gap in primary schooling.

Health care coverage increased considerably during the review period with positive effects on overall health outcomes. Infant mortality decreased from 102.12 to 80 per 1,000 between 2004 and 2009.

Detailed progress in respect of reaching the MDGs is presented in the statistical annex (see vol.2, §2).

Extreme poverty is however pervasive in Ethiopia. The most recent household income survey in 2005 indicated that about 38.7% of the population was below the poverty line<sup>6</sup>. Although substantial improvements in poverty reduction have been achieved in recent years, overall progress in reducing poverty since 1992 still may fall short of what is required to meet MDG1 by 2015 because of rapid population growth and the high variability in agricultural GDP. Owing to climatic conditions, from 8<sup>7</sup> to 12 million people<sup>8</sup> were chronically food-insecure from 2005 onwards.

Ethiopian agriculture is dominated by subsistence - low input, low output - rain-fed farming systems. About one-tenth of households are landless, and almost 55% (CSA 2006/07) have less than one hectare to work with, which is insufficient to produce enough food for an average family. While for a long time the overall growth rate in agricultural GDP hardly kept pace with population growth, substantial growth in agriculture of up to 13% p.a. has been recorded in recent years. The production increases have been achieved by expansion of the cultivated area as well as productivity gains while the land under cereals increased by 15% during the period 2004-2008, cereal production increasing by 45% during the same 5-year period. This implied productivity gains of 26%, from 1.31 tonnes/ha to 1.65 tonnes/ha. But land productivity for food crops remains low and labour productivity very low (value added per worker in the agriculture sectors is only just over one-half the Sub-Saharan Africa average<sup>9</sup>).

Rural migration over the last ten years is worsening living conditions in urban areas. The prospects for rural migration in coming years are high and integrating migrants satisfactorily into urban areas will be the challenge of the coming decade.

### 3.4 GOVERNANCE AND CIVIL SOCIETY DEVELOPMENT

The Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), a coalition of four regional parties led by the Tigray People's Liberation Front (TPLF), took over from the Derg (Leninist) regime in 1991. After a transition period, an elected government was installed under a pluralist political system.

The EPRDF has won four successive parliamentary elections since 1995, including the May 2005 elections (the first to be openly contested). In 2005, the opposition made considerable gains, which resulted in a political crisis when post-election disturbances broke out because the opposition did not accept the results. This situation led to several European Parliament

<sup>6</sup> Measurement of the income dimension of poverty in Ethiopia is based on a non-welfare approach (based on the expenditure required to cover the daily calorie requirement (2200 kcal/day/adult) and essential non-food items.

<sup>7</sup> PSNP estimates.

<sup>8</sup> IFAD, <http://www.ruralpovertyportal.org/web/guest/country/home/tags/ethiopia>

<sup>9</sup> World Bank CAS 2008.

resolutions and a decision in 2006 to withhold General Budget Support in the absence of any visible sign of advancement in democratisation and good governance. Project-based support for major road construction was allowed to continue, albeit with rigorous monitoring.

The latest elections to the House of People's Representatives and State Councils took place in May 2010. The EPRDF and associated parties secured more than 99% of seats in parliament and 100% of seats in the regional councils. 90% of eligible voters turned out for the election.

Among the key features of the newly constituted political system were an ethnically-based political map, extensive devolution of power to regions, a new formula for unity based on equality of nations and nationalities, and voluntary union. The constitution adopted in 1995 transformed Ethiopia into a federal system of government.

The Constitution gives local governments a great deal of autonomy, but requires both federal and regional governments to follow national strategies. The Federal Government exerts considerable support and control over the regions, but not through the mechanisms of line management and specific-purpose grants that are common in many federal systems. Federal grants to the Regions are dominated by a non-earmarked block grant. Sector ministries have no line authority over regional bureaux, but this does not prevent the formulation and implementation of agreed national sector programmes (such as ESDP and HSDP), which set policies and targets for all tiers of government.

### Governance profile<sup>10</sup>

The Derg Leninist regime heritage has to be kept in mind, and the present governance situation kept in perspective: the move from a centralised and disciplined structure of political control towards a more democratic regime has taken place, even if not at the pace or to the extent of some international expectations. The State building process within a decentralised framework is continuing and has contributed to creating effective local rural and urban government even while there remain strong links with the centre. The ruling EPRDF is well represented throughout all layers of the administration and local community organizations.

The trend in World Bank Governance Indicators since 1996 shows a slow improvement in administrative governance, pointing to higher administrative effectiveness, less corruption and improved rule of law, but a deterioration in democratic governance and political stability.

### Civil Society empowerment

Civil Society remains weak in Ethiopia, in terms both of its own capacity and of the limited space available for it to operate in relation to the State. Non State Actors (NSA) increased their prominence only in the early years of the 2000 decade. The Government considered that some Civil Society Organisations (CSOs) were complicit in the post-election disturbances of 2005. After the elections the government initiated a process to streamline the role of Civil Society. This culminated in the adoption of the “Charities and Societies Proclamation” in February 2009 which demarcates areas of operation for different types of CSO (particularly excluding those receiving more than 10% of revenues from external sources in the democracy, justice or human rights areas of activity). The adoption of this legislation gave rise to considerable criticisms from DPs and opposition from Civil Society.

## **3.5 ETHIOPIA'S POLICY FRAMEWORK**

In the late 1990s Ethiopia drew up Sector Development Programmes, which were put together and further rationalised in the Interim PRSP in 2000, and endorsed in 2001 by the IMF and WB. Those sector strategies are encompassed in the ADLI (Agricultural Development Led Industrialisation) approach - promotion of productivity growth through improved agricultural practices and the construction and rehabilitation of rural roads, along with a focus on expanding social sectors' service delivery.

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<sup>10</sup> AfDB 2010, Ethiopia governance profile.

The same ADLI approach underlines the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) 2005/6-2009/10, which introduced a stronger focus on MDG achievement and refocused the overall policy framework on economic growth and especially income growth. A new plan, self-explanatorily called “Growth and transformation”, is in preparation.

Overall, for more than ten years now the GoE has been developing strong, articulated and comprehensive planning and programming capacity at central level.

In the following sections, other sector policies and programmes relevant to the EU-Ethiopia co-operation are briefly presented.

### **3.5.1 TRANSPORT SECTOR**

In 2002 Ethiopia was described as having one of the least developed road networks in the world with only 20% of the population located within a 10 km range of an all-weather road. Yet despite the fact that much of this network is in poor condition, 97% of total domestic passenger and cargo traffic is moved on roads. Road transport strategy, namely the Road Development Strategy Programme (RSDP), was a major issue from as far back as the early 1990s, with strong and continuous support from the DPs. A programme document was adopted in 1997 and updated in 2001 (mid-term review). It endorsed the principles of the Road Maintenance Initiative (advanced mainly by the WB, joined at a later stage by the EU), namely:

- i) an updated road sector policy;
- ii) sustainable revenue for maintenance (creation of a second-generation Road Fund);
- iii) effective control of vehicle loading;
- iv) improved road safety;
- v) updating of road transport regulations;
- vi) restructuring of Ethiopia Road Agency (ERA) and other road organisations;
- vii) commercialisation of ERA force account operations;
- viii) contracting out of periodic maintenance to the private sector;
- ix) development of a domestic construction industry; *and*
- x) maintenance, upgrading, rehabilitation and new road construction; this overall reform agenda was associated with a programme of network extension and maintenance, along with increased average road density (from 21 km to 26 km per 1,000 km<sup>2</sup> in five years, with the proportion of the network in good condition increasing from an initial 18% to 60%).

### **3.5.2 FOOD SECURITY**

The National Food Security Programme (NFSP), established in 1998, faced a major obstacle right from the start in the form of the border conflict with Eritrea, which led the DPs to turn their attention to the regions for implementation purposes. The strategy initially adopted was strongly characterised by a macro-economic and supply-side approach, in the same vein as ADLI: emphasis on sound macro-economic policies (as the source of appropriate incentives) and provision of infrastructures (rural roads) for promoting competition and reducing marketing costs. A decentralised approach and extensive consultation, with a focus on four particularly food-insecure regions, brought the programme back on to a more realistic footing: agriculture (crops, livestock), small-scale irrigation, infrastructure and rural roads, sustainable use of the natural resource base, market and credit services, clean water supply, and capacity-building.

Ethiopia decided to move from a traditional humanitarian approach (Food Aid) to a more development-driven approach (Food Security package). The Productive Safety Net Programme became the most important component of the Food Security Strategy. With its two components (public works 80% and direct support 20%) PSNP supports *de facto* a pro-poor demand side approach focusing on incomes and livelihoods (access to food) even

though the more ambitious objective behind the model is also to stimulate agricultural production and rural development.

### 3.5.3 EDUCATION

In 1994 the national Education and Training Policy (ETP) set the framework for the launch of the first five-year Education Sector Development Programme (ESDP) in 1997 as part of a twenty-year education sector plan. Since then, primary enrolment has risen from 3.1 million to over 15 million and repetition rates have dropped significantly for boys and girls. First-cycle secondary enrolment has seen significant increases and second-cycle secondary enrolment, although still rather low, has nonetheless shown an increase<sup>11</sup>.

Efforts have been made to extend decentralisation to school level. Decision-making is being shifted from regions and zones to woredas and municipalities and further to school level, in order to improve direct response and service delivery. Accordingly, to facilitate implementation of this decentralisation process, MoE has developed Guidelines for the Organisation of Education Management, Community Participation and Education Finance (2002).

The main challenges acknowledged<sup>12</sup> by the end of ESDP II (2005) were the following: (i) quality of education (unit non-salary recurrent school budgets, number of students by section ratios, student-teacher ratios, availability of textbooks in schools, and supervision of the teaching-learning process); (ii) lack of a sufficient number of qualified teachers; (iii) weak programme management and implementation capacity; and (iv) inadequate planning and management capacity at the lower levels of the organisational structures (e.g. woredas).

The PASDEP framework for primary education<sup>13</sup> is as follows:

- new schools will be built and additional classrooms constructed, using local materials and labour;
- in pastoral and semi-agriculturalist areas, an alternative basic education (ABE) programme will be implemented;
- multi-grade classroom teaching methods will be practised;
- adult education programmes will be designed and implemented to address the access problems of over-aged school population so as to enable them to complete primary education in a short time.

As regards primary education the EDSP III (2005-2010) called for construction of 95,000 furnished and equipped classrooms, recruitment of 169,000 teachers, and textbook distribution.

### 3.5.4 HEALTH

Within the same planning framework as for education, the priorities outlined in the HSDP III are health security; health system capacities and governance; and partnerships, coordination and resource mobilisation to serve three major objectives, namely improved maternal health; reduced child mortality; and combating of HIV/AIDS, malaria, TB and other diseases.

Despite significant achievements under HSDPs I and II, coverage of the system remains inadequate, and the quality of the available services, especially in rural areas, is acknowledged to be variable.

The programme builds on a number of established strengths: relevant strategies, policies, and guidelines have been developed. Moreover there is broad agreement on them – especially on Ethiopia's emphasis on primary health care and rural areas. Implementation strategies have been adopted that are universally thought to be cost-effective, including programmes such as the Roll Back Malaria initiative, Making Pregnancy Safe, Integrated Management of Childhood Illnesses, and Daily Observed Therapy Short Course (DOTS). The targets have been aligned with the MDGs.

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<sup>11</sup> Ministry of Education, Proceeding of ESDP joint review meeting, 2009.

<sup>12</sup> MoE, Education Sector Development Program III (ESDP-III), 2005.

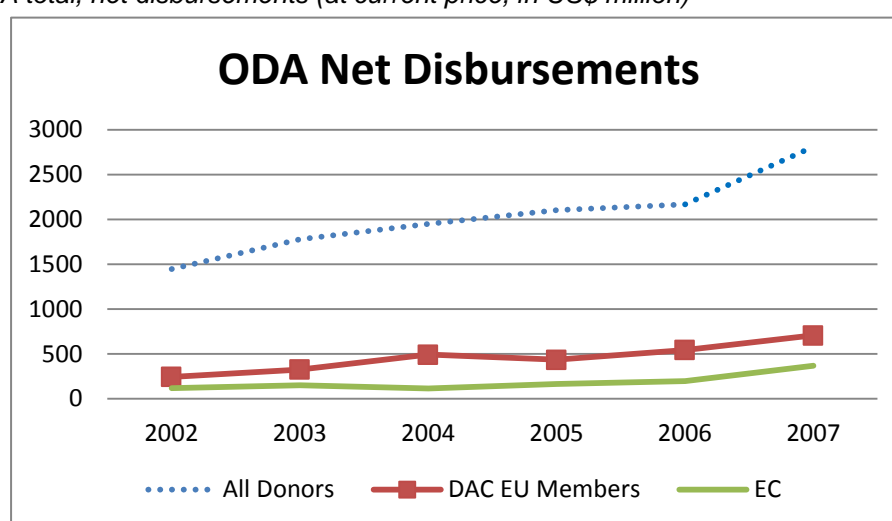
<sup>13</sup> MoFED, A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005.

Furthermore, the health system is built on a decentralised model, with a formal organisational structure that addresses key interventions at all levels. An essential package of care has been defined and agreed upon, and implementation of HSDP III has started successfully. An autonomous institution has been set up to regulate drugs, along with a department to administer and procure drugs and medical supplies. The capacity of health professionals' training institutions has been increased, and a Human Resource Development Plan adopted, while the civil service reform programme has begun to be implemented in such a way as to improve service delivery in the health sector.

### 3.6 EXTERNAL AID

Flows of aid are large compared to GDP and public expenditure, but small in relation to need and to what other countries receive: despite its extreme poverty, Ethiopia's *per capita* aid receipts are about half of the SSA average. Nonetheless, the number of DPs is large. Food aid has been a major element of assistance for years, and is now declining.

Figure 3: ODA total, net disbursements (at current price, in US\$ million)



Source: DAC online database

Ethiopia, as one of the poorest countries in SSA, was a prime beneficiary of the Monterrey consensus with its focus on poverty reduction, debt relief and the Millennium Development Goals (MDGs). Ethiopia was also eligible for relief under the Heavily Indebted Poor Countries (HIPC) initiative and reached its Completion Point in April 2004.

Table 4: Trend in ODA disbursement 2000-2007

Source	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Multilateral	454.18	734.5	552.4	652.5	736.0	632.5	970.95	1095.84
Bilateral	140.40	133.8	141.1	285.0	320.1	474.5	579.8	573.00
<b>Total</b>	<b>594.58</b>	<b>868.3</b>	<b>693.5</b>	<b>937.5</b>	<b>1,056.0</b>	<b>1,107.4</b>	<b>1550.75</b>	<b>1668.8</b>
Grants	238.24	259.59	274.86	601.34	705.79	768.68	1256.51	1280.71
Loans	356.34	608.73	418.73	336.12	350.17	338.68	292.83	388.13
Grant to total ODA%	40.07	29.9	39.63	64.15	66.84	69.42	81.1	76.7
Loan to total ODA%	59.93	70.1	60.37	35.85	33.16	30.58	18.9	23.3
Mid-Year Population(Million)	61.6	63.2	64.8	66.5	68.3	70.0	72.4	74.9
ODA Per Capita (USD)	9.7	13.7	10.7	14.1	15.5	15.8	21.4	22.3

Source: MOFED, Ethiopia: Country Report on the Implementation of the Brussels Program of Action (BPOA), 2010

Despite the importance of aid, Ethiopia has arguably taken an independent stance in respect of its own development path. Relationships between Ethiopia and the donor community have often been difficult. The 1998-2000 border war led many DPs to withhold funds and the 2005 post-election crisis had the same effect. In both cases ODA flows progressively recovered. They are now at unprecedented levels but the GoE claims that these levels are still far below

the *per capita* average for SSA countries.

The Government has supported moves towards more programmatic forms of aid, and initiated some early Sector Wide Approaches (SWAs) with its Sector Development Programmes (SDPs) in Education, Health and Roads (see above). For several reasons these were not as successful in transforming aid relationships as had been hoped: dialogue was often affected by tensions and was of poor quality, and there was inadequate understanding on both sides of the need for such programmes to be strongly linked into the macroeconomic framework -and into democratic governance. In particular, aid instruments for the application of multilateral funds to the Education SDP were poorly designed which led to low disbursement rates.

The SDPRP and then the PASDEP were the focal point of this architecture.

## 4 EU cooperation with Ethiopia

With Ethiopia as one of the larger beneficiaries of EU support worldwide, infrastructure (water, energy and roads) has been an important focus of the partnership, together with projects to enhance agricultural exports and rural development programmes. Cooperation also focused on food aid and security as millions of Ethiopians faced chronic food insecurity each year.

The various European Development Funds have contributed most to this assistance (total for 4<sup>th</sup>-8<sup>th</sup> EDFs: €1.397 bn), in the form both of programmable resources (National Indicative Programmes) and of non-programmable resources (mainly Stabex and Structural Adjustment Facility). Very substantial assistance has also been forthcoming in the form of food security and food aid, which has accounted for about 40% of the total value of EU assistance to Ethiopia since 1975. Macro-economic support mechanisms were also of continuing importance in the EU's assistance.

### 4.1 9<sup>TH</sup> EDF INTERVENTION LOGIC

The EU response strategy in the CSP 2002-2007 and related NIP was concentrated on three focus sectors: (i) transport, (ii) macro-economic support and capacity-building for economic reform, and (iii) food security. Non-focal sectors considered for assistance were capacity-building for governance, civil society and conflict prevention.

Envelope A<sup>14</sup> amounted initially to €384m. It was increased to €446m following the Mid-Term Review. Funds were allocated as follows:

Figure 4: Allocations under 9<sup>th</sup> EDF

Sector	Initial (2002)	After MTR (2004)	After ETR (2007)
Transport infrastructure	€211 m	€171 m	€239 m
Macro-economic support	€96 m	€186.6 m	€58 m
Food Security	€54 m	€60 m	€60 m
Protection of Basic Services	-	-	€150 m
Other programmes	€23 m	€28.4 m	€33 m
<b>TOTAL Envelope A</b>	<b>€384 m</b>	<b>€446 m</b>	<b>€540 m</b>
Envelope B	€145.9 m	€77 m <sup>15</sup>	€51 m

In the **transport sector**, the EU emphasised road rehabilitation and upgrading (Harrar-Jijiga, 102 km and Mieso-Dire Dawa, 155 km). Particular importance was given to (i) improved feasibility studies (for cost-effective investments), and (ii) capacity development (for efficient data, contract and procurement management) with ERA, in accordance with lessons learned during the first phase of the RSDP.

GoE resources were expected to be mobilised through the Road Fund to improve maintenance of existing roads and reduce the increasing backlog of periodic maintenance. In this regard the increased involvement of the local construction industry in maintenance work was also considered important by the EU. The door was left open for other activities to be financed through the NIP, depending on the results of studies that were on-going when the CSP was written. The EU was also hoping to use its transport infrastructure support to improve Ethiopia's regional integration, namely by upgrading links to the main border crossings. This support was originally meant to be part of the EU Regional Support Strategy, with possible contributions from bilateral resources. The MTR of the 9<sup>th</sup> EDF CSP recommended initiating the technical preparation for Sector Budget Support in this sector, and the ETR introduced changes in specific objectives which effectively anticipated the sector strategy of the 10<sup>th</sup> EDF.

In respect of **macro-economic support and capacity-building for economic reforms**, the EU response was very much a continuation of support provided under Stabex and Structural Adjustment programmes. The EU contribution to the PRSP process was assessed positively by the MTR and ETR. The EU appraisal of the reform policy framework was overall positive, it

<sup>14</sup> With an Envelope B of initially €154m.

<sup>15</sup> €18m released after the 2002-2003 drought, €13.2m to combat polio in Somali region.

being judged appropriate for Global Budget Support. Lessons learned from past programmes suggested introducing an assessment and disbursement mechanism and performance indicators. While not targeted, EU budgetary assistance was linked to achievements in social sectors. Annual reviews were oriented to assessing achievements and deciding on whether or not to continue this form of assistance. Capacity development focused on Public Finance Management (PFM) through Technical Assistance (TA). Other components targeted Chambers of Commerce and professional organisations and regional and global (WTO membership) integration. The initial allocation of funds was cut down to a third “*in view of uncertainties over the eligibility of Ethiopia for GBS*”<sup>16</sup>.

With regard to **food security**, the EU has been involved in this field for the last 26 years. The CSP 2002-2007 does not however provide a specific response strategy, as a high-level dialogue on food security was still ongoing when the strategy was written. The CSP emphasises the dialogue between the Commission Services (ECHO and AIDCO) to clarify the division of responsibilities for acute emergencies and chronic rural poverty. The MTR stated that safety nets were the focus of EU policy dialogue with the GoE and that Sector Budget Support (€60m) could be put in place.

**Among the programmes outside the focal sector**, the most significant FA related to support to the Education Development Sector Programme, which was signed in April 2002. It was replaced following the MTR by Education Sector Budget Support (€20m). Other non-focal sector projects were oriented to capacity-building for governance and targeted mainly Civil Society but also government organisations and agencies. Domains covered were civil service reform; legal and judiciary reform; human rights and democratisation; gender and women’s development; administrative and fiscal decentralisation; conflict prevention; and the development of media and trade unions. Budget line resources were to complement the NIP. The main objective was to enhance partnership and trust between Government and Civil Society.

The specific RSP-RIP funding allocation to Ethiopia within regional programmes is unknown, as is so often the case with such EDF funding. Regional allocations were targeted mainly on building up the regional road network.

A specific component of EU support to Ethiopia is its share of the Food Facility - food aid and food security: during the 9<sup>th</sup> EDF period from 2006 to 2007 €244.8m of assistance was attributable to budget lines, equivalent to more than half of the eventually allocated NIP funds. The dedicated budget line itself allocated €181.3m.

The respective weights of other budget lines were more in line with other countries: health resources mobilised through budget lines amounted to some €15.9m, with a focus on HIV (€5.5m) and on water and sanitation (€3.6m). Governance issues were addressed mainly through the NGO Co-financing and Human Rights and Democratisation budget lines, with a total of €6.4m (including micro-projects). Environment contracts, mainly forest community management, totalled €4.1m. Mine risk awareness projects were financed with up to €1m.

## 4.2 10<sup>TH</sup> EDF INTERVENTION LOGIC

The global objective of the EU’s support strategy for the 10<sup>th</sup> EDF is “*to support the Government’s efforts to achieve decisive progress towards the MDGs through faster and sustained economic development, stressing regional integration and strengthening the democratic process*”.

The EU expects to achieve this global objective by continuing assistance in the three focal sectors that it supported during the 9<sup>th</sup> EDF: (i) Transport and Regional Integration; (ii) Rural Development and Food Security; and (iii) Macro-Economic Support and Governance. For the first two focal sectors the scope is significantly wider than in the previous programming period.

The Envelope A amounts to €644m, an increase of 168% compared to the initial allocation under the 9<sup>th</sup> EDF. Funds were allocated as follows:

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<sup>16</sup> Addendum 2007 to the CSP/NIP



Figure 5: Allocations under 10<sup>th</sup> EDF

<b>Sector</b>	<b>Initial allocation</b>
Transport and Regional Integration	€250 m
Macro-economic Support	€244 m
Food Security/Rural Development	€130 m
Other programmes	€20 m
<b>TOTAL Envelope A</b>	<b>€644 m</b>
Envelope B	€45 m

In the **transport sector** the EU envisages a Sector Policy Support Programme (SPSP) through a Sector Budget Support (SBS) financing modality grounded in the GoE Road Sector Development programme (€200m). The continuation of previous EU commitments and their relevance to poverty reduction is accommodated by orienting this support to rural roads and maintenance. SBS was already being used during the 9<sup>th</sup> EDF.

In **regional integration**, the EU has pledged to support infrastructure works (€20m) to enhance Ethiopia's transport connections to neighbouring countries (with particular reference to the railway line to the port of Djibouti), and also capacity-building and institutional support to private sector intermediary organisations and public service bodies. This has to be seen in the context of effective implementation of the EPA and accession to the WTO (€30m). Under the 9<sup>th</sup> EDF the EU had already allocated resources for this purpose in conjunction with its support for economic reforms.

With regard to **food security and rural development**, the EU response consists of (i) a financial contribution (€100m) to the Productive Safety Nets Programme (PSNP), a multi-donor funded programme aiming at providing predictable transfers to the food-insecure population so as to reduce the food gap, prevent further asset depletion at household level, and create and preserve assets at community level; (ii) provision of support for private sector-based trade in inputs to and marketing of agricultural products, as well as support for Livestock Development (€20m); and (iii) assisting the Government with development of a national strategy to enhance coping mechanisms for tackling the adverse effects of high population density and climate change on natural resources (€10m).

**Macro-economic support**, through either GBS or sectoral budgetary assistance (€195m), for the Protection of Basic Services programme, is partly linked to the performance of the government, which is assessed on implementation of the policy aspects of PASDEP. EU support is meant to enhance inter-regional equity on the one hand, and to strengthen democratic governance on the other. The latter encompasses (i) capacity-building in key democratic institutions and the judiciary (€29m), (ii) enhanced participation of NSAs in policy dialogue and development (€10m), and (iii) enhancing gender equality (€10m).

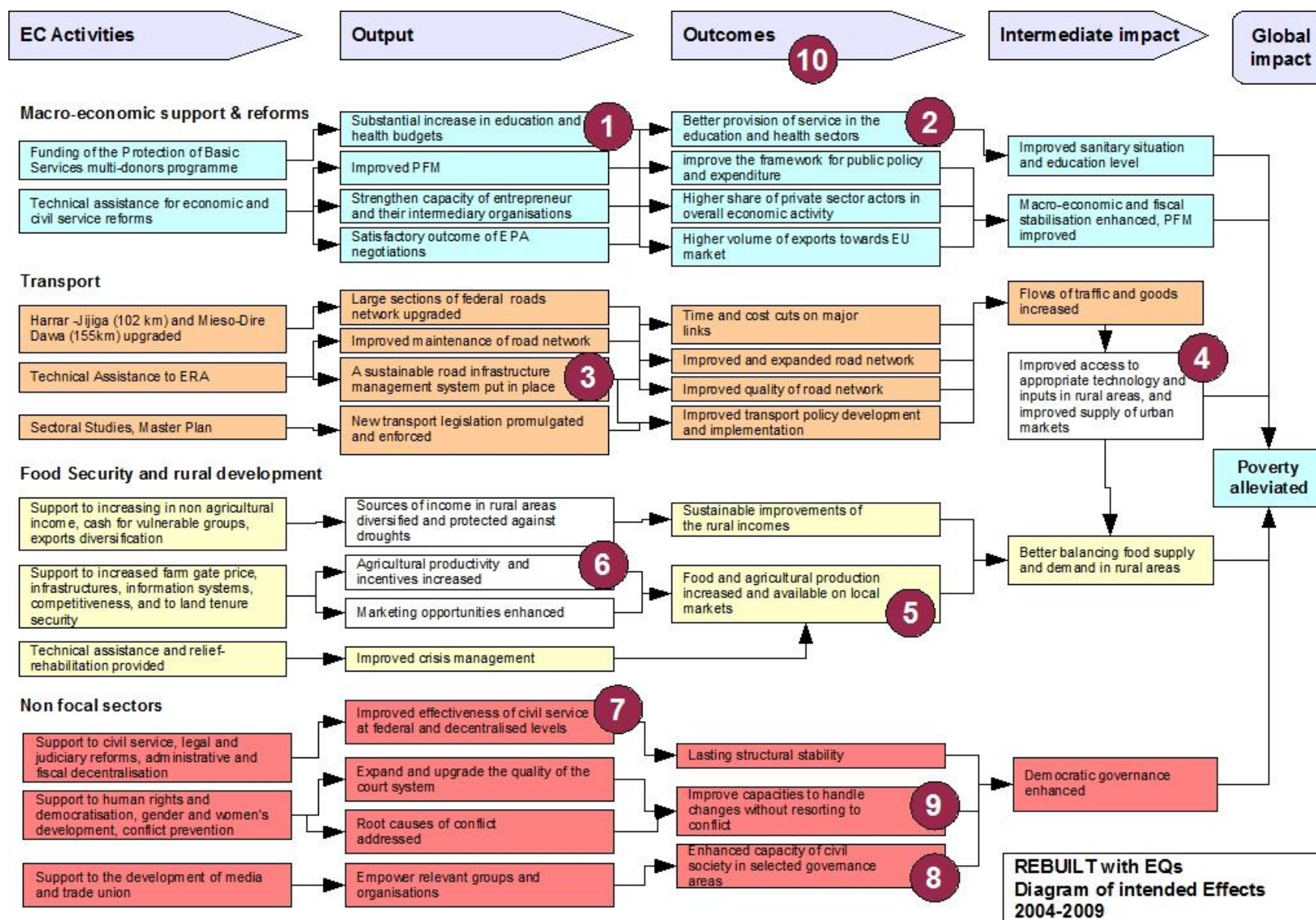
**Other programmes** (non-focal sectors, €20m) cover environmental, cultural and biological heritage conservation and de-mining action, as well as the usual EU Technical Cooperation Facility.

The 9<sup>th</sup> EDF pattern for Budget Lines and Facilities remained unchanged.

### 4.3 OVERALL STRATEGIC RESPONSE

Based on the two CSPs covering the period under evaluation, the evaluators reconstructed a diagram of effects to visualise the logical structures of the EU's global and sector-specific interventions (see next page).

Figure 6: Global rebuilt diagram of effects (2004-2009) and placement of evaluation questions



## 5 Findings

This section presents the assessment for all EQs (findings only: conclusions and recommendations are presented later in separate sections). For more information on raw information and evidence gathered for confirming or informing the 51 judgement criteria covering the 10 EQs, **please refer to the information matrix in the annex volume**. Cross-referencing at JC or indicator level is specified when answering the EQs so as to facilitate checking of evidence by readers.

### 5.1 ABILITY OF PBS TO ACHIEVE OBJECTIVES INITIALLY ASSIGNED TO GBS

**EQ1: To what extent has the pool-funding through the Protection of Basic Services programme allowed the EU to achieve the usual outputs of general and sector budget support?**

*The Protection of Basic Services (PBS) programme and its pooled funding approach has indeed improved aid effectiveness if judged against projectised aid, with an improving internal trend over time as relations improved and as support became more pooled and harmonised, especially in the health sector. However, there is still only limited evidence to suggest that PBS is fully capable of matching budget support, and it also has limitations in respect of the macro-level entry points it provides for dialogue on systemic governance issues, partly because the pooled funding was (and is) directed towards local government. Thus the focus has clearly shifted towards more technical issues at local level, which is probably also more within the comfort zone of both the government and development partners, and this dialogue clearly has its own value. There have been some recent indications that PBS has been ineffective in preventing aid fragmentation in core social service sectors, something that is typically achieved through a general budget support framework. One area in which PBS has hitherto delivered unrivalled superior performance is in overall aid predictability, in which regard budget support proved to have limited political robustness.*

<b>Judgment Criteria</b>	<p>The answer to the evaluation question is based on these judgment criteria:</p> <p>JC 1.1. PBS induced an increase in size and share of EU funding subject to government's budgetary processes;</p> <p>JC 1.2. PBS improved predictability of aid flows overall and particularly EU contribution;</p> <p>JC 1.3. PBS facilitated the establishment of a framework of policy dialogue, focused on key government strategies and priorities;</p> <p>JC 1.4. PBS facilitated the delivery of strategic and demand driven TA and capacity development initiatives that are aligned to government priorities;</p> <p>JC 1.5. PBS has facilitated harmonising and aligning of external assistance, thus reducing transaction costs over time</p>
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The Protection of Basic Services (PBS) programme introduced a new and more accountable mechanism for channelling money through the Government of Ethiopia to protect and promote basic services for the poor. This programme includes stringent measures to ensure transparency and accountability. PBS provides financial support through Government channels, requiring the Government to spend the money on basic social services and also to maintain its own financial commitments to these services. PBS consists of the following four main components: Sub-national Basic Services; Health MDG Performance Facility; Financial Transparency and Accountability; and Social Accountability.

*The EU contributed to an appropriate response to the end of GBS challenge in terms of transaction cost reduction, harmonisation and alignment*

The pool-fund of the Protection of Basic Services Programme has in most respects achieved many of the same outcomes, in terms of transaction cost reduction, harmonisation and alignment, that one could have expected from budget support, with some problems in terms of policy dialogue and donor discipline. This should not be surprising as PBS was largely

designed deliberately to imitate the modalities of budget support so as to derive the same benefits. Transaction costs have been modest (**see Annex, JC 1.5**) as a result of transferring the vast majority of funds directly into mainstream fiscal transfers to local governments (**see Annex, JC1.1**).

*A minor part of the EU response did not produce the benefits expected from budget support*

While the majority of funds were channelled through local government budgets in component 1, other components deviated more substantially from the characteristics of budget support, with higher degrees of aid fragmentation and donor-specific planning, budgeting and reporting procedures, not least within the health MDG component (**see Annex, JC 1.1. and 1.3**).<sup>17</sup> Moreover procurement has been managed according to World Bank procedures which has clearly also militated against achieving the same benefits as general budget support (**see Annex, JC 1.1**). Again it is important to put this challenge into perspective: with more than 90% of all funds channelled through government systems (as a form of local-level budget support), PBS has in most respects been highly aligned with domestic systems.

In terms of predictability (**see Annex, JC 1.2**) PBS has also been somewhat uneven across components and over time, but on a generally improving trend. Procurement performance consistently undermined the predictability of fund disbursement. However, budget support is clearly also susceptible to unpredictability in the form of a qualitatively different and more disruptive kind. The 2005 elections thus undermined the perception of EU general budget support as inherently more predictable than other aid modalities; indeed general budget support has been more susceptible to politically induced-unpredictability (**see Annex, JC 1.2**) with repercussions across the entire aid allocation. This is in contrast to PBS where unpredictability relates to specific and minor aspects of aid allocations with only limited politically-induced unpredictability. Proponents may counter that using budget support for short-term political signalling in a stop-go fashion is not an appropriate approach for development partners (DPs), but that is still what has materialised.

In some aspects PBS remains a second-best solution (compared to GBS) from an aid effectiveness perspective, as there is still some aid fragmentation in the health component (**see Annex, JC 1.4 and JC 1.5**), with limited untied pooling and alignment. This appears to impose transaction costs on both government and DPs, although both seem willing to accept them, as evidenced by the fading intensity of the dialogue on resumption of general budget support.

*Limited content of policy dialogue for DPs, and particularly EU*

Reduced scope for policy dialogue has been a key 'cost' imposed on DPs, especially as regards the partial exclusion from policy dialogue of federal-level political issues, governance, macro-economic issues and wider accountability, not least political accountability (**see Annex, JC 1.3**). Initially this self-imposed exclusion was clearly triggered by the need to be seen as taking a stand in the wake of the 2005 elections and there are signs that the policy dialogue is moving 'upwards' again in PBS II. Whether this upward move in dialogue focus is comparable to what could have been achieved in a general budget support setting is somewhat hypothetical but the inability to change the Charities law (which undermined a component of PBS) suggests that there are clear limits to the scope of the dialogue<sup>18</sup>.

Moreover, GoE's willingness to accept the (limited) deadweight losses and transactions of PBS could indicate that government is content to keep DPs at arm's length in relation to politically sensitive issues at central level. This is further evidenced by its decreasing enthusiasm for the resumption of budget support. Thus, a substantial part of the dialogue appears to be centred on micro-budget issues at sub-national level. This is in contrast to the situation which prevailed before PBS, when dialogue was centred on macro-economic issues

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<sup>17</sup> Also contributing to the aid fragmentation in the health is the considerable number of DPs outside the PBS who display limited adherence to the aid effectiveness agenda. These include USAid, UNICEF, WHO, PEPFAR and the Global Fund.

<sup>18</sup> Obviously it is also hypothetical to speculate if the EU and other donor would have been more successful if providing budget support. Nevertheless the dialogue under budget support was far more topical inclusive and concerned many current macro-political issues.

and issues of broader scope.<sup>19</sup> A key characteristic of the PBS programme is thus its focus on financing and public financial management at local level. Obviously this can also have its advantages. Much of the interaction between DPs and government has been clustered around these issues, particularly with regard to the PBS ‘tests’ and the continuous audit process (**see Annex, JC 1.3**). This kind of interaction may be more firmly grounded within the comfort zones of both government and DPs, allowing the latter to continue disbursements and the government to avoid dialogue on politically-sensitive issues while still receiving substantial aid inflows.

#### *Limited alignment and threats of aid fragmentation*

Further increasing the attractiveness of PBS to government may have been the high degree of domestic ownership of TA and capacity development initiatives (**see Annex, JC 1.4**). Again, this is especially the case for by far the largest component, namely component 1 in which all TA forms an integral part of government procedures and systems right from identification, recruitment, remuneration and reporting, in stark contrast to traditional TA practices. This also applies to capacity development initiatives in component 1, which are highly aligned on government priorities. Outside component 1 there is more uneven alignment on government priorities, partly by design, but overall with an improving *internal trend in PSB* as witnessed by the health component’s objective of ‘one plan and one budget’. However, PBS has failed to provide the overall framework for aligning major DP support to the public sector, which in part was one of the main objectives<sup>20</sup>. Thus major PBS DPs are now either implementing or contemplating substantial projects within PBS’s core areas of health and education, but using a project modality outside PBS (and moreover using World Bank procedures), clearly contravening the letter and spirit of the Paris Declaration in respect of misalignment and non-harmonisation. In this sense PBS has less ‘gravitational pull’ than general budget support in terms of giving DPs incentives to align and harmonise their support for core social services (e.g. education and health).<sup>21</sup>

Obviously there are several other DPs fully outside PBS that also contribute to the undermining of the alignment and harmonisation ambition, not least USAid, vertical funds and UN agencies. However, PBS has been unable to provide a sufficiently attractive or robust framework to engage these donors, while recent fragmentation *by* PBS DPs (but not EU) arguably does not set a good lesson in leading by example.

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<sup>19</sup> See for example the Aide Memoires from the 2004 and 2005 Joint Budget Support missions, as well the Public Expenditure Reviews that were prepared as background for the dialogue between GBS donors and GoE. Moreover, the MoU governing the GBS support explicitly mentioned core governance issues and made respect for human rights and democratic principles integral parts of the agreement on GBS.

<sup>20</sup> In the WB PAD, 2008, the harmonisation objective is repeatedly mentioned as a key ambition and benefit of PBS, stating for example that PBS II will continue the strong commitment to donor harmonization and collaboration that was built up under PBS I [...] and that PBS will ‘facilitate the move towards broader harmonization’. Unfortunately PBS has not been able to fulfil these ambitions.

<sup>21</sup> PBS clearly also had the ambition to promote wider harmonisation as shown in the project document for 2008 (WB, PAD).

## 5.2 PBS EFFECTS ON PUBLIC EXPENDITURES

**EQ2: To what extent have the EU financial contributions to the protection of basic services changed the volume and share of public expenditures for primary education and health care?**

*PBS has increased the volume and share of public expenditures for primary education and health care for decentralised service delivery at a time when the suspension of budget support threatened to worsen the plight of Ethiopia’s poorest. In the absence of an option to use general budget support, making use of regional and lower-level government systems to channel the majority of this funding was the only realistic and sustainable method of transferring resources, given the significant volume of funds. Fungibility seems limited partly by the overall volume of the funding, partly due to close monitoring (additionally), but primarily because of strong government commitment to protect basic services. PBS has, through its close alignment on government systems, worked to underpin and augment this commitment.*

<b>Judgment Criteria</b>	<p>The answer to the evaluation question is based on these judgment criteria:</p> <p>JC 2.1: The level and composition of public expenditures improved for primary education (especially on key areas of concern of PBS programmes);</p> <p>JC 2.2. The level and composition of public expenditures improved for health care (especially on key areas of concern of PBS programmes);</p> <p>JC 2.3. PBS has assisted in improving core indicators for primary education;</p> <p>JC 2.4. PBS has assisted in improving core indicators for health care delivery;</p> <p>JC 2.5. Donors coordination mechanisms are in place at different levels;</p> <p>JC 2.6. Cross-cutting issues have been increasingly mainstreamed in primary education policies and practices relevant to PBS programmes</p>
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### *Evidence of EU related changes in volume and share of public expenditures*

The volume of funding going to the basic sectors targeted by PBS I and II has increased substantially. Although aid can be fungible, most observers believe that an increase of this magnitude would not have taken place without external support from DPs. This is partly because DPs also insist on additionality and all available evidence suggest that aid has been additional in the sense that government allocations have not declined as aid has increased. The education sector has clearly seen increases (in absolute but also in real terms) although the share of education compared to other sectors has varied. The introduction of the local investment grants (LIGs) should also help change the composition of expenditure at local level in favour of more capital expenditure, thus correcting in part the bias (at local level at least) in favour of recurrent expenditure (**see Annex, JC 2.1.**). The situation is similar in the health sector, which has experienced budget increases not just in absolute but also in relative terms. Despite these increases, health still is the smallest of the poverty-related sectors in terms of funding (**see Annex, JC 2.2.**).

### *A visible effect on education and health access but with some service delivery quality issues*

The evidence suggested that funds have been managed judiciously, with an almost doubling of the number of schools which, even more impressively, has occurred simultaneously with a decreasing student-teacher ratio. This in turn has been instrumental in improving core education indicators such as enrolment and the gender parity index. However concerns still linger over quality, dropout rates and graduation to higher levels. Other programmes are also addressing these issues, for example the education sector programme and the General Education Quality Improvement Programme (**see Annex, JC 2.3.**), but such initiatives have their own challenges in terms of alignment and aid fragmentation.

Similarly, in the health sector accessibility appears to have improved but with uncertainties as to quality, partly because of a still unfunded financing gap and limited human resources within the sector (**see Annex, JC 2.4.**).

Finally, by primarily relying upon existing domestic organisations for implementation, crosscutting issues are being mainstreamed into government systems. This will facilitate wider rollout and better sustainability. There are few specific crosscutting interventions for HIV-AIDS and gender, the former already being over-funded. As for gender, impressive progress in girls' enrolment has been made. Environmental regulations and safeguards have still to be fully implemented locally. **(see Annex, JC 2.6).**

*Shortcoming in EU capacity to contribute to DPs coordination discipline*

Concerning PBS as a donor coordinating mechanism **(see Annex, JC 2.5)**, the indications so far are that PBS has proved to be a robust and well-functioning donor coordination mechanism for those participating. In addition, there has been strong government participation in PBS, with joint review missions as a core mechanism for dialogue and with robust participation of the government in the preparation of PBS II. However, it should be noted that there is some degree of fragmentation within PBS, most notably in the health sector, which PBS II has attempted to address with some success in terms of adopting the “own budget and one plan” concept. However the component still uses World Bank procedures. It should also be noted that there are many DPs active in education and especially health, but outside PBS. Some of those DPs' internal regulation and macro-political considerations (e.g. those of USAID; PEPFAR, Global Fund) make coordination in the form of increased alignment and harmonisation challenging.

Perhaps more importantly, PBS has not provided the same disciplined donor coordination framework that GBS is typically capable of, as already stated in EQ 1. Again this is materialising outside PBS, but the EU could arguably have been more ambitious in its donor dialogue with fellow PBS partners in order to avoid this situation and make PBS better able to capture such interventions.<sup>22</sup>

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<sup>22</sup> Obviously for PBS to capture such programmes would require a change in the modalities by which support through PBS is channelled, which in turn would imply that PBS would acquire more GBS-type characteristics. The two major PBS DPs evidently have no interest in such a transformation of PBS.

### 5.3 EFFECTS ON THE ROAD NETWORK MANAGEMENT AND ROAD OPERATIONS REGULATION

**EQ3 - To what extent have the EU interventions contributed to improving in a sustainable manner the institutional framework of road infrastructure management and road transport operations regulation?**

*The EU contribution to improvement of the institutional framework was instrumental in providing a global incentive for improving performance through two successive SPSPs and targeting of technical assistance on jointly identified shortcomings in programming and contract management at federal and decentralised levels. Strong ownership of ERA on the sector strategy and the finally-adopted institutional reform provided reasonable guarantees of sustainability against limited involvement in policy dialogue. The SPSP budget support approach provided insufficient safeguards on how ERA's absorption capacities were to be increased. ERA data on road conditions provided for the SPSP performance evaluation framework needed close review by the EU during the RSDP tranche disbursement assessment with a view to eventually assessing their reliability positively. Only in recent years has the EU succeeded in increasing government concern over road transport services, no firm steps having yet been taken.*

Judgment Criteria	The answer to the evaluation question is based on these judgment criteria:
JC 3.1.	The road sub-sector policy and programming framework has improved;
JC 3.2.	The financing framework for road network maintenance and expansion is viable and sustainable;
JC 3.3.	Institutional performance of road sector management has improved at all administrative levels;
JC 3.4.	Road sector agencies improved in a sustainable way the quality of their human resources;
JC 3.5.	EU has contributed to set donors coordination mechanisms in place in support to policy dialogue;
JC 3.6.	Crosscutting issues mainstreaming has improved in the road sub-sector.

#### *A comprehensive policy framework designed with multifaceted EU support*

The building blocks of an efficient and sustainable institutional framework are a sound policy framework; informed programming; project prioritisation mainly on economic grounds; a viable financial and budgetary framework; and sound human resources management. The robust RSDP policy framework was partly underpinned by EU-funded TA and was structured in accordance with longstanding policy dialogue, reinforced by the SBS approach from 2005 onwards (**see Annex, JC3.1**). The road sub-sector policy and programming framework was already comprehensive and realistic prior to 2004 but was further improved with the support (TA) and incentives provided by the EU (**see Annex, I 3.1.1**) through its major road projects (that identified several programming and contract management weaknesses) and its two SPSPs (that provided TA support to address identified weaknesses and, from 2009 onwards, more general capacity development through the CBS project). The policy dialogue was supported by strong Delegation involvement in terms of integrating international best practices and adjusting planning targets, but suffered from limits in quantity and quality of externalized inputs selected by the FWC procedures. The government was not reactive in the Transport Sector Working Group (TSWG), the dedicated platform co-chaired by the EU: ERA and MoT attendance was often scarce, the staff attending being too junior to have any decision-making power. The lack of coordination between the MoW (beneficiary of EU support) and the MoT (chairman of the TSWG) limited the effectiveness of EU policy dialogue. The coordination issue has now been solved as ERA is accountable to MoT. Attendance and commitment by the GoE improved only very recently, with the establishment of two sub-groups dedicated to two major EU policy issues: Rural Access and Road Safety.

*An institutional framework progressively strengthened unless for maintenance programming*



The benefits of the politically-driven decentralisation option in terms of improved efficiency in rural road extension and maintenance are not yet in sight, and all the more so in emerging regions. The capacity constraints faced by RRAs (**see Annex, I 3.1.2**) gave rise to an improved rural road strategy and programming process strongly supported by DPs, notably the EU. Significant improvements were brought into ERA and, albeit to a lesser extent according to evidence from field interviews, RRA programming tools and data management capacity (**see Annex, I 3.1.3**), which provided more robust and economically efficient planning for road construction. The situation was otherwise in maintenance programming, which stayed chaotic as a result of from the poor quality of the construction works (partly related to design weaknesses), shortage of local contractors, and the number of vacant engineers' positions in ERA and RRAs.

#### *An increasing financing gap for recurrent costs*

Road network extension and rehabilitation was a priority of the GoE during the whole reference period, and therefore benefitted from exceptional allocations from the national budget (backed by SBS resources from DPs, and notably EU financial contribution for trunk roads). The road network's share in the national budget was up to 3% of GDP, one of the highest in Africa. This financial effort is framed by successive 3-year to 5-year RSDPs (**see Annex, I 3.2.1**). The financial sustainability of this extraordinary capital investment (compared to most other African countries) has been demonstrated by the fact that it is to be pursued during the coming five-year period within restored macro-economic stability. The coverage of recurrent costs (routine and periodic maintenance), given the unexpected increase in traffic and the enhancement of the design standards, is still out of reach of RF levies. A study was launched by the Road Fund for renewing its resource base to adjust to future maintenance challenges.

Coverage of federal and regional road maintenance needs by the RF exceeded 100% in 2007 and 2008, but followed a downward trend in 2009, with a fuel levy rate that does not permit any further significant increase (**see Annex, I 3.2.3**). The relative degradation in the condition of the roads after 2007 is therefore not only a funding issue but also related to the poor quality of technical design and contract management (below the standard of work performed by foreign contractors), combined with weak supervision. The capacity of local SMEs on paved road maintenance is also an issue.

The Mid-term Expenditure Framework process is still in its early stages and the expected rationalisation is not in sight as there is no room for integration of two separate decision-making processes, no matter what might have been the improvements in road maintenance database management and the prioritisation process (**see Annex, I 3.2.2**). The EU contribution to improving the financial framework has been relatively minor, and limited to incentives through the inbuilt SPSP policy dialogue.

#### *An unaddressed human resources shortage*

There has been a strong EU contribution to Human Resources Development, first through various TA missions with ERA and lately through the delayed CBS project with ERA, RRAs and the private sector. High turnover in all sector public institutions and the lack of attractiveness of RRAs call sustainability into question (JC3.4). Several initiatives were implemented from 2004 to overcome shortcomings in road sector institutions' capacity in ERA and at decentralised level, most of them financed by DPs with a clear division of labour at sector level. Under the EU contribution to the 9<sup>th</sup> EDF, the capacity-building project was delayed until 2009 but from then was expected to provide a number of training opportunities in ERA and RRAs. The EU has a significant contribution to make in increasing, through SBS, ERA's capacity to recruit and enhance its absorption capacity even if high turnover remains an issue that can only be solved in the long term. The CBS project came too late for improving ERA and RRA staff qualifications and technical know-how but is nonetheless providing highly appreciated training courses which impart a valuable comprehensiveness to the EU contribution (**see Annex, I 3.4.1**).

The major sustainability issue in capacity development programmes concerns turnover of

trained staff. RRAs, and to a lesser extent ERA, are at risk as they are unable to retain recruited staff owing to the lack of incentive packages as compared to opportunities offered by the fast-developing private sector (I 3.4.4). RRAs face difficulties in attracting professional staff owing to a relatively difficult working environment and poor career prospects. **(see Annex, I 3.4.3)**

#### *Improved institutional performance with limited evidences*

Overall, institutional performance is improving in respect of procurement, contractual management and engineering design, all strongly supported by DPs and particularly the EU, given that in 2003 they were identified as major bottlenecks in infrastructure construction and maintenance. The achievements are below initial expectations as ERA gave preference to increasing absorption capacity (recruiting staff) rather than enhancing existing capacities and procedures. The need for qualitative improvement is now being felt by ERA and measures are being taken. Transport services regulatory issues received far less (if any) attention and support, except in respect of road safety; and achievements are therefore limited to local awareness of emerging DP concern **(see Annex, JC3.3)**. Given the pattern of GoE decision-making, the strong ownership of the road policy and now the related institutional reform, it is most likely that serious solutions will be provided to identified shortcomings, ensuring the sustainability of the revised framework **(see Annex, I 3.3.1)**. At RRA level improvements are still limited, despite longstanding support from GTZ and now the EU CBS project, and even more so in emerging regions.

The shift from forced account operations to private sector participation in maintenance work remained a low-level priority for ERA during the period under evaluation, although some restructuring possibilities were considered. A developed domestic construction industry is seen as a precondition for existing units being fully commercialised, thus delaying for years any definite action. The capacity of the private sector is even weaker in remote regions and unstable areas, where commercialisation is likely to be further postponed. The EU was not proactive on this issue except in the framework of policy dialogue (see Annex, I 3.3.2), which raised at an early stage the need for concentrating first on building local contractors' capacity.

The regulatory issues of road traffic and transport services were another low priority for ERA and, apparently, the EU interventions did not provide any specific support. The main SPSP concerns in this respect were road safety and axle load control, both served by a variable tranche indicator. Road safety achievements since 2004 are significant (updating of the legal framework, budgeting from the Road Fund, and pilot initiatives), even if strongly limited by the difficulties encountered in providing an adequate and permanent institutional framework and annual plans. Axle load control was enforced from 2005 onwards under a scheme inspired by best practice. Offloading of excess load is in place in all ERA's existing nine weighbridge stations. Achievements were satisfying as the number of trucks overloaded by 20% or more went down from 37% in 2002 to 32% in 2008 and to 12.5% in 2010).

#### *A strong coordination framework led by the EU*

The RSDP framework and the Sector Work Group provided opportunities and incentives for progress in Division of Labour between DPs. The EU has a leading role in coordination, in close partnership with ERA **(see Annex, JC3.5)**. As co-chairman of the Transport Sector Work Group the EU made a significant contribution to the setting-up of coordination mechanisms in the road sector. Coordination between DPs was supported by a high level of transparency and sharing of information. The size of the country and the backlog at all levels (from major trunk road construction projects to small capacity-building initiatives) allow each donor to find a suitable niche within the RSDP framework. The relatively recently established TSWG is providing a framework for coordination, even if it did not find its momentum during the reference period **(see Annex, I 3.5.1)**. The GoE, and particularly ERA under MoFED guidance, provided a coordination function that seems to have successfully avoided duplication **(see Annex, I 3.5.3)**. It is likely that many gaps remain, considering the scale of construction and capacity-building needs at federal as well as local levels. Progress in complementarity between DPs is mainly linked to the effective coordination of the two major

contributors, namely the World Bank and the EU (see Annex, (I 3.5.2)).

#### 5.4 EFFECT OF EU FUNDED ROAD REHABILITATION PROJECTS ON ACCESSIBILITY

**EQ4 - To what extent have EU interventions in the road sector contributed to improving economic accessibility: locally (to marketing and inputs to agriculture products) and at country level (to external markets)?**

*The EU contributed to increased economic accessibility both in rural areas and to external markets by supporting improvement of the road network, its density and its condition through its two SPSPs. This contribution, albeit aligned on RSDP objectives, was however insufficiently focused on rural road extension and maintenance, even in the EU-driven policy dialogue. The access of rural communities to markets and agricultural inputs was limited, while the focus on the Southern route to the port of Djibouti did not contribute to releasing the pressure on the Northern route. However, evidence from national average and sampled itineraries points to overall improvements in road density, accessibility and travel time that are attributable to the EU at least to the extent of its share in RSDP's budget (9%). Vehicle cost savings associated with better road conditions were largely offset by inflation, but transport tariffs are still too low to underpin modernisation of the transport industry.*

<b>Judgment Criteria</b>	<u>The answer to the evaluation question is based on these judgment criteria:</u>
	JC 4.1. The maintenance of road network (trunks and feeders) has improved;
	JC 4.2. The extension of road network (trunks and feeders) has improved its connectivity;
	JC 4.3. Access to rural areas and external markets has improved;
	JC 4.4. Passenger and goods transport has improved;
	JC 4.5. Transport operator's benefits from EU road interventions were passed to customers;
	JC 4.6. EU interventions have improved accessibility of remote and isolated areas.

*An evidence-supported link between road improvement and economic accessibility for rural communities*

At local level, better access to permanent (rural) roads in good to fair condition allows easier access to markets, and thus an increase in prices and production incentives (see Annex, **JC4.1**). Surveys undertaken concluded that road improvements have provided a wider range of alternative income-earning opportunities, and have helped promote diversification of agriculture and generation of employment. The World-Bank-financed Transport Poverty Observatory (TPO) household surveys provide additional information on the trend in the proportion of household expenditure attributable to transport for the poor in rural areas. Between 2004 and 2007 the share of transport for the poor increased from 0.28% to 0.35% (a very limited share showing the constraints on mobility in rural areas). For the extreme poor<sup>23</sup> during the same period, the share increased more sharply from 0.16% to 0.36%. An increased share of transport for the poor and extreme poor means, with stable passenger tariffs during the same period (see Annex, **I 4.5.1**), enhanced mobility and thus improved mobility in remote and isolated areas (see Annex, **JC 4.6**).

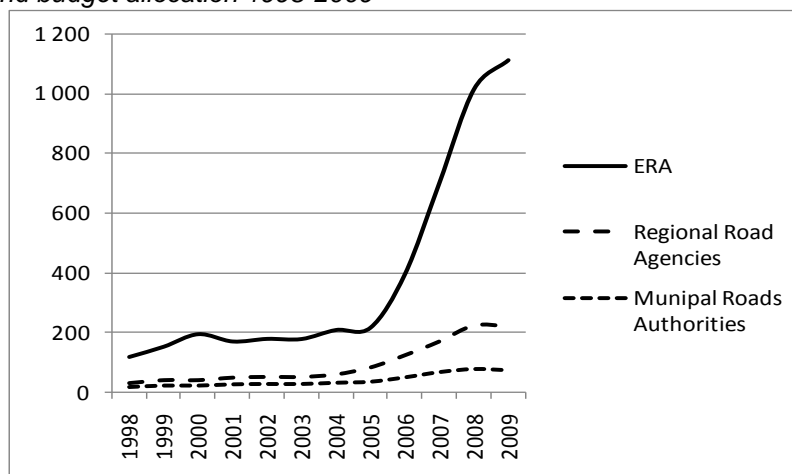
*Improved internal connectivity, threatened since 2007 by lower maintenance performance*

Road network density (in km per 1,000 inhabitants) increased from 0.51 to 0.56 between 2004 and 2008 owing to an extension of the road network by 7,863 km in four years. Feeder road network extension and rehabilitation, which improves access to markets for rural producers and thus their incentive to increase their production and productivity, was relatively neglected (see Annex, **JC 4.2**). Access to rural areas did not improve significantly during the period under evaluation, with (for a country of the size and population of Ethiopia) very limited construction of 5,974 km, a total which did not counterbalance the loss of part of the existing

<sup>23</sup> As defined by the TPO household survey

rural network due to a growing maintenance backlog as Road Fund resources were increasingly absorbed by federal road maintenance.

Figure 7: Road fund budget allocation 1998-2009



Source: Road Fund, prepared by Evaluation Team

The share of feeder roads in the investment and the maintenance programmes was however too limited in previous RSDPs to create economic incentives among rural communities, as the low level of traffic on newly-built or upgraded federal roads demonstrates (**see Annex, JC 4.3**). A significant forward thrust on this network is planned in the next RDSP, with some 70,000 km<sup>24</sup> to be constructed in the next five years.

In this regard, as with other physical achievements of the GoE, the contribution of the EU to those changes is very hard to determine, as it is a budget support approach. The EU supported RSDP II and III through financial transfers, technical assistance and policy dialogue during the reference period. If approximated to its disbursed financial contribution to the road sector budget over the three RSDPs (1997-2009), the EU contribution would be 9%.

The sustainability of this increased connectivity depends in turn on the performance of the maintenance strategy, which has not reached the level expected if judged from the extent of the capital investment over the last ten years (**see EQ 3**). The tension is not yet fully evident, as a large part of the inter-regional (i.e. federal) network has recently improved because of periodic maintenance and DPs' support for rehabilitation works.

At the end of the period under evaluation, according to ERA sources the picture between 2004 and 2008 is of an overall improvement, the decline in condition of paved roads being compensated for by large rehabilitation and construction projects. The improving trend from 1997 onwards appears to have weakened since 2007 through lack of routine maintenance, which seems to be a contrary indication at a time when the Road Fund was able to finance 100% of maintenance needs (**see Annex, I.4.1.3**).

During the reference period, the proportion of paved roads in good and fair condition increased from 77% to 88%. Rural road conditions, chiefly as regards gravel road classification, deteriorated during the same period from 70% in good or fair condition to 64%, owing to problems that were insufficiently foreseen (**see Annex, JC 4.1**).

#### *Improved access to external markets, with the EU developing an yet unused alternative route*

The GoE road strategy was oriented towards paving the major links between regional capitals and Addis, and from Addis to Djibouti, which is export-oriented. Access to external markets is for the time being only through Djibouti, using two alternative routes. Overall, the travel time from Addis to the port of Djibouti was brought down significantly during the period under evaluation, from three days to two or even one-and-a-half days (**see Annex, I 4.3.2**). The EU contributed significantly to upgrading the Southern route, which is less used than the Northern route upgraded by the WB. The Southern route is still a gravel road in Djibouti territory (an EU

<sup>24</sup> Source: ERA.

upgrading project is ongoing in the Djibouti NIP) and therefore not often used by truck drivers.

#### *Increase in traffic and vehicle operating costs*

However, overall traffic also increased significantly, and not just between the main city markets. This traffic increase is more attributable to the combined effect of economic and demographic growth than to higher incentives for mobility of goods and personnel. The benefits of the investment and maintenance do not impact that strongly on journey time on the 2,288 km surveyed by the TPO, showing that the balance between improvements and degradation (of gravel roads particularly) is still proving hard to keep positive (**see Annex, JC 4.3**). Data collected by ERA independent consultant (WT consult) exhibit a very positive trend in journey times on the Ethiopian Road Network.

Vehicle operating costs increased over the evaluation period, more than the consumer price index (278 vs. 207 in 2008, base 100 in 1996). The same trend can be traced right back to 1997. This negative performance is partly explained by the share of imported fuel, lubricants and spare parts in the VOC, due partly to the poor managerial capacity of most transport operators and partly to the average age of the freight fleet. The prices of those imports reflected international market inflationary pressures as well as Ethiopian Birr devaluations (**see Annex, JC 4.4**). A regional comparative study recently found that Ethiopian transport costs are still moderate. Uncertainties at all levels and lack of reliable data preclude firm conclusions on an issue fundamental to the overall rationale of the EU sector strategy.

#### *Unexplained market dysfunctions*

VOC savings relating to road condition, always regarded as the main DP contribution to poverty reduction, are supposed to be passed on to customers, be they producers, traders or passengers through transport price cuts (or increases limited to factors of VOC other than costs generated by road condition). This implies in turn that a level playing field exists for market forces in auto-regulation of transport tariffs. In the case of Ethiopia there has since 2006 been a mismatch between rising VOC and relatively stable tariffs. The tariffs index rose to around 200 in 2008 (based on 100 in 1996) while VOC rose steadily to 300 on the same base. Tariff increases started readjusting VOC and prices from 2006 onwards but at a very slow rate. This trend demonstrates a limited improvement in the underlying degree of competition within the transport industry, against open but regulated access to markets, absence of price control, and improved consultation with stakeholders. (**see Annex, JC 4.5**). This price adjustment seem to be led by import-export transport operators on the Djibouti corridor where some form of cartelisation is acknowledged, offsetting the overall lack of management and knowledge of costs on the part of most of the transport operators on the internal market. An ongoing study of the transport industry with the Transport Authority will shortly provide better insights into the functioning of the transport industry.

## 5.5 EFFECTS ON FOOD INSECURITY

### EQ5: To what extent have EU interventions contributed structurally to better balancing of food supply and demand in the areas most affected by chronic food insecurity?<sup>25</sup>

*The EU was deeply involved in the design of the comprehensive approach underlying PSNP, and contributed to operational improvements through several policy dialogue and implementation monitoring mechanisms. Taking into account the EU contribution to rehabilitating and maintaining regional roads, the EU therefore has a significant share in the overall positive achievements of the PSNP in better balancing of food supply and demand in Ethiopia, particularly in areas affected by chronic food insecurity. However various operational deficiencies, identified long ago by the EU and other DPs, could not be solved by capacity-building initiatives. Examples are serious weaknesses in management by decentralized services and limited reactivity of government to inflationary trends.*

<b>Judgment Criteria</b>	<p>The answer to the evaluation question is based on these judgment criteria:</p> <p>JC 5.1. Food availability (production and transport) has increased and access mechanisms improved in areas supported by EU interventions and most affected by chronic food insecurity;</p> <p>JC 5.2. Food affordability has sustainably increased in areas supported by EU interventions and most affected by chronic food insecurity, and overall;</p> <p>JC 5.3. Undernourishment has decreased in woredas supported by EU interventions and most affected by chronic food insecurity, as well as overall;</p> <p>JC 5.4. EU food aid was geared towards a LRRD approach and was supportive to a national policy shift.</p>
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#### *A comprehensive EU contribution to reducing chronic food insecurity in a sustainable way*

The EU directed the bulk of its assistance for the rural development and food security sectors to the Productive Safety Net Programme (PSNP) by mobilising resources from the 9<sup>th</sup> EDF and the Thematic Food Security budget line. In addition to PSNP support, Thematic Food Security and NGO-co-financing instruments have been used to respond to specific needs (e.g. emergency food aid), to support specific strategic approaches (food security information, agricultural market promotion, natural resource development), and to support - particularly through NGO co-financing - community, agricultural, rural development and food security initiatives in other than PSNP-supported areas (**see Annex, I 5.4.3**).

Chronic food security has an increasing high level of priority in national development agenda and was for many years supported by DPs within a joint and harmonised approach. The EU was a major contributor to the government's recognition of the fact that the problem of chronic food insecurity needed a different response, and supported the development of new strategies aimed at tackling chronic food insecurity through improved and more dependable food supplies to vulnerable populations living in areas particularly prone to food insecurity. The PSNP, launched in 2005 by the GoE with support from the EU and a consortium of DPs (CIDA, DFID, Ireland, SIDA, USAID, WFP and World Bank), is an outcome of this process and became the major national food security intervention in the country. Besides its financial contribution of up to 15% of PSNP, the EU supported the GoE in the operational design the programme, providing complementary technical assistance and capacity-building support and thereby contributing significantly to the overall performance of PSNP in improving the food security situation by addressing both the demand and supply sides of the food economy. PSNP followed a twin-track approach, through on one hand immediately helping bridge the current food deficits of chronically food-insecure households, and on the other hand improving rural infrastructure and preserving and enhancing the natural resource base in food deficit areas, and hence their productive potential.

<sup>25</sup> Note: Since the major EU food security intervention forms integral part of the joint Government-Multiple Donor intervention PSNP, its performance can only be assessed in the context of overall programme performance.

### *The EU prevented the targeted poor and food-insecure rural populations from falling behind*

PSNP has prevented the target group of poor and food-insecure rural populations from falling behind and has helped them keep pace with recent agricultural developments. Impact studies revealed a substantial reduction in food shortages, measured in months of food gaps in PSNP beneficiary households before and after PSNP participation<sup>26</sup>, and among PSNP beneficiary groups *vis-à-vis* non-PSNP participants<sup>27</sup> (see Annex, I 5.2.2 and 5.3.2). Those improvements are limited to the most affected areas, and ignore less massive food insecurity situations in regions not covered by the programme.

A part of those improvements, hardly quantifiable, comes from the supply side, that is considerable increases in agricultural and food production in recent years (see Annex, JC 5.1). According to official agricultural statistics, grain production increased from 11.4m to 16.4m tons (44%) between 2004 and 2008 (see Annex, I 5.1.1). Increases in food production are recorded from all areas of the country, traditional surplus and deficit areas alike, suggesting that they should largely be attributed to favourable weather conditions in recent years, but also to expansion of crop land and productivity increases (see Annex, I 5.1.2). Food markets appear to be functioning well, generally ensuring market supplies of grain, including in food deficit areas (see Annex, I 5.1.3). Although the agricultural production figures may have been inflated to a certain extent, there are clear indications of substantial agricultural growth and general improvements in the rural poverty and food situation, as manifested in increased household incomes and reduced levels of rural poverty indicators (see Annex, JC 5.2), increased *per capita* food supplies, and improvements in the nutritional status of the population (see Annex, JC 5.3).

The EU support to the road sector, by contributing to increasing road connectivity of rural areas to permanent roads and by extending and improving trunk road conditions between deficit prone regions and regions with agricultural surpluses, was another driving factor in the increase in marketed agricultural and food production (see EQ4).

### *Limited ability of the EU to contribute to improve PSNP operational deficiencies*

There have been targeting errors and the frequent phenomenon of incomplete or delayed payments (up to four or more months, which for poor and food-insecure rural populations makes a huge difference), particularly during the first years of PSNP implementation, which prevented a large number of eligible and actual PSNP beneficiaries from receiving the intended support (see Annex, I 5.2.2). Targeting errors were linked to unclear targeting criteria that were clarified by the GoE with EU and other DP support. The joint monitoring framework between the government and the DPs was instrumental in identifying the gap and finding appropriate solutions. Incomplete or late payments are mainly related to shortcomings in programme management capacity on the part of government services at decentralized level, and lack of anticipation of DPs' reporting requirements and the procedures for specific release of funds.

Within the framework of regular bi-annual joint reviews and implementation support missions, as well as more punctual policy dialogue events such as the EU mid-term review, the EU contributed to improving programme implementation, which was progressively modified through initiation of capacity-building activities and also through playing on the comparative advantages of each external contributor in terms of fund release, but the solutions found were not proportional to the issues identified. The September field mission showed that this multifaceted EU support has not sufficiently improved the PSNP's performance.

The PSNP furthermore faced new challenges in 2008 with a peak of extreme food price inflation, particularly for those beneficiaries receiving full- or part-payment in cash. The real value of their cash wages rapidly and significantly deteriorated (see Annex, I 5.2.3). Certain adjustments of nominal cash transfers were agreed jointly with DPs, but were insufficient to compensate for the loss in real value and came too late. The EU was not able to influence

<sup>26</sup> In selected woredas in the Oromia region, a reduction of the food gap of PSNP beneficiaries of four up to almost six months have been reported, see I 5.2.2.

<sup>27</sup> Between 2006 and 2008 the number of PSNP beneficiaries experiencing food shortages fell from 89.4% to 56.6%, compared with a reduction from 71.2% to 47.7% of non-PSNP participants.

government decisions in this regard. Owing to the deterioration of the value of cash *versus* food transfer there has been, as would be expected, a clear shift in PSNP beneficiaries' preferences towards in-kind payments of food. This renewed food bias stands against the EU objective of supporting a significant shift from food to cash under PSNP, as it will prolong dependence on food aid and therefore delay the process of strengthening local food markets.



## 5.6 EFFECTS ON AGRICULTURAL ASSETS<sup>28</sup>

### EQ6 - To what extent have EU interventions contributed to sustainably maintaining farmers' individual and community assets?

*The improvement of individual agricultural productive assets is mainly being tackled by the EU through PSNP by fighting against their depletion. This however has had only limited success due to the inadequate allocation of resources by the government to credit schemes that remained out of the reach of EU sector policy dialogue. The EU found ways of advocating for a more comprehensive approach through a few projects targeted on agriculture but with too limited resources for impacting significantly on the government policy framework. Signs of changes in this respect are however acknowledged. On community assets, longstanding EU involvement did allow for extending natural resources management projects but with only a limited capacity for reducing operational deficiencies attributable to their decentralized management.*

<b>Judgment Criteria</b>	<u>The answer to the evaluation question is based on these judgment criteria:</u>
	JC 6.1. Secured access to land has increased;
	JC 6.2. Farmer's access to credit is available;
	JC 6.3. Farmer's access to non-financial assets has increased;
	JC 6.4. Natural resources are increasingly managed in a sustainable way;
	JC 6.5. Donor coordination mechanisms are in place at different levels;
	JC 6.6. EU mainstreamed major crosscutting issues in rural areas (gender and environment) in its contribution to Ethiopia's rural development sector.

The issue of maintaining individual and community agricultural assets in Ethiopia is covered by the EU-supported Productive Safety Net Programme (PSNP) as well as by the non-EU-supported Food Security programmes (FSP). The PSNP is designed to serve as the first rung of a "ladder" out of food insecurity and poverty. Once the beneficiaries already have access to the PSNP to fill food gaps and avoid asset depletion, they are also entitled to household packages and micro-finance under the FSP, the joint impact of which is expected to lead to increased household incomes and assets over time, while works under PSNP targeted on managing natural resources and community roads directly improve community assets.

#### *Insufficient complementary support for achieving effective graduation from a state of food insecurity*

The EU contributed to PSNP transfers which helped beneficiary households maintain minimum consumption levels and overcome critical periods without having to deplete their productive assets or apply other destructive coping practices. This, however, was obviously not enough to enable PSNP beneficiaries to make the decisive transition from a state of chronic food insecurity to one of sustainable food security. Complementary support to strengthening the productive capacity of PSNP beneficiaries was needed through agricultural development promotion measures and granting of access by beneficiaries to other forms of support such as credits, farm inputs, extension and training, livestock and so forth. According to an agreement between the DPs and GoE, the DPs were to cover the full cost of the PSNP while the GoE was to provide the required complementary support from its own budget. Although the initial budgetary allocation of 1 billion ETB has been increased to 2 billion ETB annually, the resource capacities were insufficient to implement the complementary agricultural support measures on the planned scale (**see Annex, JC 6.2 and 6.3**). Resource

<sup>28</sup> In addressing the issues of individual and community assets, EQ6 addresses specific aspects of food security. It is, therefore, closely related to EQ5 and has to be seen in the overall food security context laid out there. EQ6 specifically refers to the objectives of the Productive Safety Net Programme (PSNP) to avoid asset depletion at household level and to build community assets, both seen as factors in strengthening the capacity of rural households to withstand shocks and overcome food insecurity, as a prerequisite for sustainable rural development.

and management constraints in service delivery at decentralised levels contributed to the fact that the ambitious originally target of 5 million PSNP beneficiaries becoming food secure and graduating from further PSNP support within a five-year period has not been achieved; only about 280,000 had graduated by 2009. The EU and other DPs were neither in a position to re-allocate their resources for PSNP transfers, nor to find new resources to the necessary extent (**see also Annex, JC 5.3.2**).

*The main structural factors for maintaining and extending agricultural assets could only be included in the EU's multifaceted policy dialogue*

The two main driving factors in the building and maintaining of agricultural assets at individual and community levels are land tenure and access to credit. The EU staff included those issues in several sector policy dialogue platforms on food security and constantly pinpointed the need for a more comprehensive framework and long-term vision in those fora as well as in project and programme action fiches and financial agreements. Recent changes in government policy tend to demonstrate an increasing buy-in of this longstanding advocacy.

In the past land tenure insecurity prevented farmers from investing in land and encouraged destructive and unsustainable land use practices. A new federal land law was released in 2005<sup>29</sup>. Although retaining State ownership of rural lands, it grants usufruct rights to the farmers. The proclamation of the land law was followed by a swift and efficient process of land registration and certification. By creating a sense of “ownership” of the land and helping to solve land disputes, land registration and certification encouraged farmers to invest in land (e.g. planting trees, growing cash crops, establishing irrigation facilities) and to apply soil and water conservation and sustainable land use practices, all factors contributing to improved land asset holdings (**see Annex, JC 6.1**).

A functioning rural credit system is essential for building up farm assets. Farmers' access to credit has increased over recent years, particularly in connection with household packages of farm inputs (e.g. seeds, fertiliser) or farm assets (e.g. animals, tools) provided under the Government-funded Food Security Programme (**see Annex, JC 6.2**). The EU did not find ways of gearing a significant share of its resources to those issues, apart from the Support for Agricultural Marketing Development (€10m). Yet there are still many farmers, particularly women farmers, who lack access to formal credit. Some typical deficiencies in the design and management of the credit schemes (inflexibility of packages provided on credit, lack of technical support services, capacity and institutional constraints in credit management, lack of dependable and effective revolving fund arrangements), which limit the effectiveness (loss of opportunities and growth potential), efficiency (low repayment rates) and sustainability (dependence on continued subsidies and renewed budget allocations) of the rural credit supply system remain. PSNP participation generally facilitated access to credit from informal as well as formal sources (**see Annex, JC 6.2**). In the new PSNP phase, credit supply through micro-finance institutions (MFI) and Rural Savings and Credit Cooperatives Organizations (RuSACCO) is explicitly linked to PSNP, albeit still without donor funding.<sup>30</sup>

*EU supported PSNP contributed to a dramatic increase in household assets*

In recent years there has been a dramatic increase in household assets (livestock, productive assets, and household and consumer goods, **see table 66 in the annex**) in all categories of rural households (PSNP public works, direct support and non-PSNP beneficiaries). While good harvesting seasons generally favoured this positive trend, PSNP helped beneficiary households to keep pace with other households in accumulating assets and, when

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<sup>29</sup> Although there was wide agreement that land use regulation was urgently needed, there was a long and fierce political debate on whether private land ownership or State ownership with guaranteed usufruct rights would be the better way to ensure land tenure security in Ethiopia. With the “Rural Land Administration and Land Use Proclamation” No. 456/2005, the GoE put an end to this debate.

The relatively new phenomenon of large-scale foreign investments in land, commonly referred to as “land grab”, is already extensively applied in Ethiopia and is to be further expanded. It requires close monitoring as regards its possible positive and adverse effects on rural development and food security.

<sup>30</sup> Apart from a capacity-building component provided for under World Bank funding, funding of the credit component comes from the Government budget.

implemented as planned, the PSNP had significant impact on asset accumulation. For example the growth rate in livestock holdings among PSNP beneficiaries was 28.1% faster than among non-beneficiaries. This is supported by evidence from surveys showing that PSNP beneficiaries are using cash transfers to invest in farming inputs and livestock. Among the PSNP beneficiaries, those households receiving the full amount of payments and additional support through other food security programmes (e.g. credit, input supply, training etc.) have been most successful in increasing their asset base. Building on such experience, close linkages have been established between PSNP and the Household Asset Building Programme (**see Annex, I 6.3.1**).

*Limited capacity of the EU to impact on operational deficiencies in building community assets*

The public works implemented under the EU-supported PSNP aimed at building and improving community assets (e.g. road construction, soil and water conservation, water supply, community service structures, etc.). There has been long experience in Ethiopia with public works schemes, based on food-for-work schemes promoted by WFP and NGOs, and “employment generation schemes” (EGS) which had been developed and implemented with EU support since the mid-1990s. This long-term involvement of the EU within a framework that was initially project-based but subsequently oriented more towards policy dialogue, helped consolidate GoE’s management capacity in food or cash for work projects. The EU had assigned TA to assist the GoE in the implementation and follow-up of the public works components of the PSNP. Many of the public works activities under PSNP are geared to soil and water conservation and natural resource protection (afforestation). Activities in this field are considered particularly relevant as they address the problem of massive land degradation - a major constraint on sustainable agricultural production - and provide employment opportunities for a large number of unskilled workers, which make them particularly suitable for public works implementation. More than 30,000 public works projects are implemented annually, and in general well-established planning and implementation procedures are applied, based on community participation. Deficiencies in the public works component are typically the poor quality of the work implemented, the lack of proper management of the infrastructures built, and the lack of maintenance, problems which could not be solved through EU support (**see Annex, I 6.3.2**).

EU concerns on gender mainstreaming were built into the design of GoE’s PSNP and related food security programmes. They are fully integrated into programme implementation, particularly for food-cash for work projects in which concrete steps are taken to allow an equitable share for women’s participation. As to environmental concerns, several measures in the field of food security and rural development are being directly geared to protection and improvement of the natural resource base (**see Annex, JC6.6**). Visible positive changes in terms of vegetation cover, terraces (including bunds), and land use practices (mainly agro-forestry practices) were observed during the field visit to selected woredas of west and east Haraghe, in contrast with the situation about two decades previously. As reflected by the interviewed beneficiaries and also as observed during the field visit, regeneration of the long-lost woodlots through area closure and reforestation, increased adoption of improved farming practices (in both livestock and crop production), and a shift towards agro-forestry practices, are all approaches that need to be promoted (**see Annex, JC6.4**).

*EU contributed actively to DPs coordination and fulfilling the aid effectiveness agenda*

The PSNP is the result - and appears to be a good example - of well-functioning coordination and cooperation mechanisms between the EU and other donors, and between DPs and the government, throughout all phases of design, setting-up, and implementation of the programme. Programme steering and coordination structures have been established at national, regional and sub-regional levels. The EU is well represented in the structures at federal level and, as reported and documented, is actively participating in related programming, monitoring and evaluation processes. Given the harmonised donor framework adopted for the PSNP, the programme contributes to MDG 8 on partnerships and the Paris Declaration on Aid Effectiveness (**see Annex, JC6.5**).

## 5.7 EFFECTS ON ADMINISTRATIVE DECENTRALISATION

### EQ7: To what extent have EU interventions contributed to developing capacity for administrative decentralisation?

*The EU has contributed substantially to the decentralisation process, not primarily in the form of traditional capacity-building activities, but rather through underpinning and legitimising the new local authorities by providing finance. This has been an effective, albeit somewhat indirect, approach to supporting primarily administrative and limited political decentralisation through the PBS. More direct support through the Public Sector Capacity-building (PSCAP, including the District Level Decentralisation, Civil Service Reform and Justice Sector Reform sub-programmes) has not been funded to the same extent. The EU has devoted correspondingly fewer analytical resources to the PSCAP and the key issue remains the question of whether continued support is warranted.*

Judgment Criteria	The answer to the evaluation question is based on these judgment criteria:
JC 7.1:	There is a greater and consistent application of the principles of subsidiarity and inter-governmental cooperation;
JC 7.2:	Democratically accountable local governments have the necessary levels of governance and revenue to contribute to sustainable local development and local governance;
JC 7.3:	Decentralised public services are better able to reach the intended beneficiaries, and local ownership is increased;
JC 7.4:	There is complementarity between interventions of the EU, the EU Member States and other donor agencies active in the support to decentralisation.

Decentralisation in Ethiopia is not limited to administrative decentralisation but also contains strong elements of (especially) fiscal decentralisation and to a certain extent political decentralisation.<sup>31</sup>

Decentralisation has been a key government priority that predates both PBS and PSCAP, the two principal EU-supported programmes that aim to promote decentralisation (among other objectives). Nevertheless, EU support has accelerated and strengthened the process by providing both government-owned capacity development support (through PBS's focus on PFM and financial transparency) and finance that enabled local government to have funded mandates. The latter has been of crucial importance in ensuring the legitimacy of the new political configuration and the local governments, and has helped improve service delivery (see also EQ2). It has in turn allowed substantial progress in the education, health and water sectors. However, while considerable administrative decentralisation has evidently taken place, the degree of real political decentralisation is still subject to some uncertainty, especially in terms of the configuration and power distribution within the ruling party and its implications for the political autonomy of local governments (**see Annex, JC 7.1**).

There are indications suggesting that, in some aspects, political power is still centralised, but that local government and the citizen are becoming increasingly empowered in terms of administrative decentralisation. However, the federal government has in other aspects limited the degree to which political space is open to all stakeholders. Thus many NGOs have seen their ability to hold local governments accountable diminish.<sup>32</sup>

Consequently it is not clear either to what extent local governments (principally at woreda and provincial levels) are democratically accountable to their electorates, or how far bottom-up mechanisms are allowed space and voice. In the classical western-inspired development paradigm, democracy at local level and active citizen participation in political affairs is seen as the key disciplinary instrument ensuring accountability and ultimately development. This has

<sup>31</sup> The definitions of the various aspects of decentralisation are those of EuropeAid: 'Supporting Decentralisation and Local Governance in Third Countries' January 2007.

<sup>32</sup> See e.g. International Crisis Group (2009), "Ethiopia: Ethnic Federalism and Its Discontents." Human Right Watch: *Development without Freedom*, October 2010. World Bank also argues that there is 'a level of answerability achieved in Ethiopia through party-led fora within the dominant part [...] with a 'significant top-down element in this'. World Bank PAD PBS II 2008.

probably especially informed PBS (and Non-State Actors programmes globally) in its accountability approach of using support for traditional 'voice and transparency' NGOs to complement the large fiscal transfers to local government. However, the reality on the ground may be less straightforward, and top-down accountability mechanisms (principally around party lines and traditional authorities) may have been more effective than the attempts of PBS and PSCAP to promote bottom-up accountability - indeed even more so, given that whatever political space for bottom-up and CSO-based voice and transparency demands there may have been was reduced during the period under evaluation (see also EQ8). If this is the case, then the effectiveness and impact of especially the social accountability support under PBS may become seriously compromised. Nevertheless, the indications are that internal technical governance quality is becoming more robust at local level and that budget, planning and revenue management capacities are increasing, which in turn are key ingredients in the effective fight against poverty. The PBS, through its strong focus on local level financial transparency and accountability has contributed to this benign outcome (**see Annex, JC 7.2 and JC 7.3**). Moreover, there are also indications that citizens increasingly engage with local government and their front-line staff, although this engagement is seldom mediated by western-style voice-NGOs.

The decentralisation area has seen significant attempts to promote more harmonised and aligned modalities for supporting government priorities. Thus most DPs have agreed to support one programme using the same procedures and disbursement modalities, although there are important exceptions (e.g. health in PBS). Fiscally, donor funds thus complement those of the Government, which helps reduce transaction costs. However, this may also represent the limit to which DPs are prepared to promote aid effectiveness; there has been only limited progress in reducing the number of active DPs within the sector. The sheer volume of donor participants that participate in the joint review missions (close to 70 representing 12 DPs) do, *ceteris paribus*, impose significant transaction costs. This is not consistent with global and local ambitions for better division of labour, which includes a reduction in the number of sectors in which DPs are active and a corresponding increase in silent partnerships. One reason for this undesirable situation is that many DPs immodestly believe they have a comparative advantage in governance and, implicitly, that their support can help reconfigure and improve politically deeply-embedded accountability mechanisms at national and local levels. The evaluation found some fragmented evidence supporting this claim at local level (e.g. under the financial transparency and accountability component where budget transparency clearly has potential), but also found that governance systems are not easily amenable to reform. Finally, neither the EU (and the other DPs) nor the government have subjected their claims of achievements within decentralisation to any independent outside evaluation, which may have undermined the emergence of new learning opportunities (**see Annex, JC 7.4**).

## 5.8 CIVIL SOCIETY EMPOWERMENT

### EQ8: To what extent have EU strategic responses contributed to empowering Civil Society in relation to governance processes at decentralised levels?

*The EU faced a drastic change in government policy towards the empowerment of Civil Society after the 2005 post-electoral crisis, which proved to be a significant setback to progress in democratic governance previously achieved through support for developing the PASDEP. This setback was clearly manifested in the 2009 Charities Law, which, while providing a desirable regulatory framework, excluded externally-funded NGOs from democracy, justice or human rights areas. The EU Civil Society Fund is the only vehicle for CSO activities beyond mere service delivery, as the government agreed to treat this project as nationally-funded. Most development and civil rights CSOs are moving back to service delivery in the framework of DP-supported government programmes.*

<b>Judgment Criteria</b>	<p>The answer to the evaluation question is based on these judgment criteria:</p> <p>JC 8.1: The legal and regulatory framework for Civil Society has become more conducive to CSOs involvement in policy processes;</p> <p>JC 8.2: Effective empowerment and improved operational capacity of CSOs to participate in social and political debates and in decision-making;</p> <p>JC 8.3: The presence and interface of CSOs with the population and the government is better ensured;</p> <p>JC 8.4: CSOs become sustainable entities operating in all relevant policy areas and in complementarity with local governments and the private sector;</p> <p>JC 8.5: The EU has ensured the overall internal coherence of its interventions for empowering Civil Society in relation to governance processes at decentralised levels</p>
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#### *The scope for EU support to CSOs was reduced under GoE pressure*

The EU contributed significantly to building up CSOs' capacities, mainly through its sector programmes such as PBS (social accountability pilot component) and PSNP, which were implemented by CSOs. The Commission also provided direct capacity-building support (from 2006 onwards) as well as funding governance projects and networking support through the Civil Society Fund. Indirect support was provided by supporting apex organisations (CTF, PANE). At the beginning of the evaluation period EU dialogue with GoE helped to integrate a governance matrix in the overall PASDEP - a major landmark in a progressive democratic governance framework - by creating a space for dialogue between the federal government and externally-funded CSOs in the areas of *democracy, justice and human rights*. This progress was offset by the 2005 crisis setback and further still by the Charities Law enacted in 2009, which regulated CSO activities and excluded externally-funded CSOs from governance-related areas (**see Annex, JC 8.1**). Before the Proclamation, the EU-sponsored "Capitalisation study on capacity-building support programmes for non-state actors under the 9<sup>th</sup> EDF" (2009) identified Ethiopia as a country with very limited participation by CSOs in political processes (along with Mauritania and Somalia among the 16 countries surveyed). CSO involvement in rights-based activities is even more limited now that the proclamation has come into effect (February 2010) although this has not yet been clearly documented.

The new Charities Law provides a regulatory framework for CSO management and monitoring of the use of external donations, as was needed to prevent some misuse of funds by a few CSO managers, particularly among religious-oriented CSOs, and more generally to regulate a mushrooming activity. The re-registering process, started at federal level in October 2009, reduced by half the number of active CSOs of which 295 are foreign, 288 resident and 1,013 Ethiopian (Sept. 2010)<sup>33</sup>. The law allows income-generation activities, which are wrongly presented as a substitute for external funding: local resources, even via provision of consultation services, will be totally inadequate to maintain permanent local staff for regular

<sup>33</sup> Figures provided by the CSO Authority. EC Delegation stated that the respective figures are 221, 1013 and 308; to be checked during the restitution seminar.

activities if not re-oriented to service delivery within the GoE policy framework agreed with the DP community (**see Annex, JC 8.2**). The law thus considerably constrains the capacity of DPs and international NGOs to help Ethiopian CSOs participate increasingly in social and political debates and decision-making.

The EU demonstrated in the CSP 2008-2013 its capacity for a deeper understanding of the Ethiopian democratic governance fabric and adopted a more balanced approach to capacity-building than merely empowerment of CSOs. The EU response strategy sought to integrate CSO support into a framework encompassing key democratic institutions and the judiciary. The targeting of support provided to CSOs became more balanced, treating policy-right advocacy on the same level as service delivery, in contrast with the previous sole focus on their watchdog role (**see Annex, JC 8.5**).

However, the two EU interventions supporting Civil Society were strongly focused on empowerment, both by the very nature of the EIDHR projects (approx. €3m), and by the date of the design (2002) of the Civil Society Fund (€10m). The EU has ensured coordination between its two interventions. Both are managed by the Delegation (through dedicated TA for the CSF) and beneficiaries are selected through calls for proposals that ensure coherence *via* their respective ToRs. The EIDHR projects started in 2002 whereas the CSF did not become operational until 2006. The tripartite management of the CSF adopted after the Charities Law enactment allowed continuation of its activities: EU funding is now assimilated into local resources through the joint nature of CSPs and NIPs. The EIDHR micro-projects do not benefit from this measure and it has not been possible to launch new projects since 2009.

*EU support to PBS and PSpN contributed to enhancing CSO participation in decentralized policy dialogue and policy-rights activities*

Within the new regulatory framework, the CSOs are positioned, alongside service delivery in GoE sector programmes, in policy-making dialogue with local government and rights-based policy activities at grassroots level, notably with support from the EU for the PBS pilot social accountability component or in some of the CSF projects in emerging regions. At federal level, the GoE does not offer many policy dialogue platforms to CSOs and counts far more on decentralisation to ensure an interface with the population. More opportunities for dialogue and consultation stayed open with local governments, albeit in varying degree from actual involvement in design and monitoring to mere formal participation in public meetings. The emerging regions' local governments are more open to CSO support than are the central highlands where they are more structured and have more capacity (**see Annex, JC 8.3**)<sup>34</sup>.

The EU approaches in this respect are largely sector-specific and unrelated to shared principles of empowerment enunciated in the CSPs<sup>35</sup>. Each sector of EU intervention pursues its own priorities first, and involves CSOs to the maximum possible extent in programme implementation, attempting as far as possible to use them to create a policy dialogue platform and to press for more accountability and transparency of local governments and public services. The PBS social accountability component is the best example; achievements with PSpN are more limited, and no room for CSOs was found in the road sector SPSPs.

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<sup>34</sup> The EU Delegation disagrees with this finding.

<sup>35</sup> Idem for the distinction between empowerment and capacity-building introduced by the evaluators.

## 5.9 EFFECTS ON STABILITY AND CONFLICT PREVENTION

### EQ9 - To what extent has the EU taken into account the potential causes of conflicts when setting up and implementing activities?

*Despite a comprehensive analysis of the desirable involvement of the EU in contributing to addressing the root causes of conflict with the government, this approach was eventually limited to the indirect effects on poverty and inequities expected from the usual EU sector approach. The lack of demand from the government in this respect was a driving factor in this change. Nor did the EU contribute to reducing external tensions, as its support for conflict prevention at regional level initiatives (CPMR) only started in 2009.*

<b>Judgment Criteria</b>	The answer to the evaluation question is based on these judgment criteria: JC 9.1. Root causes of conflict treatment is included in EU co-operation with GoE; JC 9.2. Potential for conflicts was minimized for EU focal sectors; JC 9.3. External threats have decreased.
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The EU produced an analysis of the root causes of conflicts in its 2002-2007 CSP that was not carried over into the following programming period, which came only two years after the major 2005 post-electoral crisis and one year after the EU communication “*Strategy for Africa: An EU regional political partnership for peace, security and development in the Horn of Africa*” in which the region was taken as a test case for the EU’s peace and security strategy in Africa.

The initial (2002) analysis of conflict prevention is very basic and no further EU reports are available for the period covered that identify efforts to come to a better understanding of domestic tensions or indeed a comprehensive strategy (**see Annex, I 9.1.1**). This necessarily impeded the first option of integrating conflict prevention into the EU strategic response in such a way as to mainstream it into the focal sector programmes. The EU did not use its various dedicated instruments of conflict prevention or post-conflict situations (IfS, EIDHR, and LRRD under articles 72-73) in Ethiopia. Only two CSO projects supported through CSF were involved in conflict prevention and dispute resolution.

Interventions in the focal sectors, by the mere fact that they are aimed at reducing poverty, are regarded as mainstreaming the root causes of conflicts. An additional input to the process of relieving tensions is the particular weight given to emerging regions in the sector approach. There is no monitoring of the effects of focal sector mainstreaming on the root causes of conflict. In the final analysis it has therefore not been possible to provide any evidence-based statement on the EU’s contribution to conflict prevention through its focal sector support.

External threats to Ethiopia have actually decreased since 2004<sup>36</sup> (**see Annex, JC 9.3**), but the EU does not appear to have been a major player in external threat management and thus cannot claim credit for this development. An alternative approach was to handle conflict prevention through EU regional programmes. Regional programming (2002-2007) effectively integrated conflict prevention as part of a non-focal sector and supported the African Union Organization in the Conflict Prevention, Management and Resolution Programme (CPMR) in the ESA region (9 ACP RSA 027, €10m) with seminars, workshops, capacity-building activities and studies which have either already taken place or have been launched to support IGAD’s Peace & Security Strategy in the Horn of Africa. The CPMR programme only started in 2008 and cannot yet be expected to have made a significant contribution to peace and

<sup>36</sup> Co-operation with Sudan is on the increase, along with a border demarcation agreement. Improvements are usually linked to the need for Ethiopia to strengthen its alliances against Eritrea. The major post-war issues with Eritrea had been settled by 2009, whether border demarcation or war compensation. Relocation of refugees remains an issue in a country where ethnic competition for natural resources is high and SALW available but does not threaten the country’s stability. Alleged Eritrean support to rebel movements active in Ethiopia is the only noticeable remaining threat; Somalia’s conflict is not a threat to Ethiopia as such. The end of the Ethiopian military intervention and the presence of security forces in Ethiopian ethnic-Somali regions prevent significant destabilisation; Cross-border raids from Kenya remain a concern but do not constitute an external threat to Ethiopia, although steps are being taken jointly by GoE and GoK to minimise progressively their number and extent.



security for Ethiopia. It encompasses the major regional issues which are CPMR (IGAD), SALW (EAC) and war economies (COMESA). Steering committees were set up and a MoU was to be signed in 2009-2010. The bilaterally-supported IGAD CPAT programme (started in 2006) appears to be more effective in terms of mobilisation and achievements.

The EU military operations in the region are not specifically addressing external threats of direct concern to Ethiopia. They indeed contribute to stabilising the regional security system set out in the EU strategy communication but this contribution is too diffuse to be assessed. The 80,000 refugees based in Ethiopia have given rise to tension or conflict as they are mainly from Somalia and Sudan. The IDPs are a far more sensitive issue, with some 300,000 people displaced by ethnic feuds or pastoralist raids that killed more than 500 between 2003 and 2009. Their resettlement, as well as the general resettlement policy, causes them to compete with local people for scarce natural resources or agricultural land, as demonstrated in Gambella region.

## 5.10 EU AID MODALITIES MIX

### EQ10 - To what extent were the EU aid modality combinations appropriate to the national context and the EU development strategy?

*The potential for aid modality combinations was not fully exploited by the EU in such a way as to introduce more flexibility and more customisation of aid in relation to the Government's institutional capacity or emerging needs. The lack of a strategic approach to aid modality combinations was largely attributable to EU instruments on the one hand, and on the other to high-level decisions taken on grounds other than technical rationale, for example in settling the collateral impact on EU cooperation of the 2005 post-electoral crisis. The attempt to improve aid effectiveness through rationalisation of the division of labour between DPs was quickly downsized to a focus on the EU alone, with no concrete benefits over the period.*

<b>Judgment Criteria</b>	The answer to the evaluation question is based on these judgment criteria:
	JC 10.1. JC1. Several options of aid modalities have been discussed for aid activities by sector;
	JC 10.2. Emerging issues were incorporated quickly and effectively into EU programming and policy dialogue;
	JC 10.3. The synergy between aid modalities has been discussed both within each focal sector and overall;
	JC 10.4. Combinations of instruments and approaches were defined to suit partner's capacity more than regulations of each financing modality;
	JC 10.5. Combining EU aid modalities was an inclusive internal strategic process;
	JC 10.6. Aid modality combinations were the result of complementarity with other donors.

#### *Aid modalities not chosen on technical grounds*

During the period under review, EU aid modalities were closely adjusted to the changing local context but, for PBS particularly, not on technical grounds, that is their appropriateness to the local context, but rather on the message they were expected to convey to the GoE. The nexus of the period is the management of the exit strategy following the 2005 post-electoral crisis. The EU and the DP community at large were keen to send a message of distrust to the federal government and designed PBS to deliver services at decentralised level only. Once done, and after losing its grip on the GBS policy dialogue platform, the EU had progressively to rebuild trust with the GoE in order to keep its programmes running and support the population of one of the poorest countries of the world.

It is difficult to trace back analyses on the comparative advantages of available aid modalities in the Ethiopian context, particularly as regards the specific partnership with the government that showed clear signs of being tough on several issues considered sensitive. The link with the feedback process in the EU programming cycle was weak. The CSP for 2008-2013 picked up only a few of the recommendations from the 2004 country strategy evaluation, and hardly any of the lessons learned. The sensitivity of the government is a limiting factor in a joint programming exercise, even more so when mutually preferred aid modalities involve alignment on the government policy framework (**see Annex, JC 10.1**).

#### *A constant tension between formal expectations and practice in respect of aid modalities*

All instruments are mobilised in strategic framework which is unclear insofar as the CSP 2002-2007 is largely disconnected from implemented programmes owing to the thorough revisiting of EU cooperation following the 2005 political crisis. Only recently the EAMRs have brought more visibility to the wide range of EU interventions in Ethiopia and underlined the new consistencies which are being sought. Finding synergies between aid modalities, whether overall or within a given sector, was a concern articulated at management level. It was a constant preoccupation of EU staff (**see Annex, JC 10.3**).

The EU demonstrated high flexibility in adjusting to crises (in the case of the 2005 post-electoral period), and in re-orientating the Civil Society Fund calls for proposals following the enactment of the 2009 Proclamation on Charities Law. The same flexibility was evident at

sector level through successive phases of budget support, for example in the road sector with the introduction of institutional reform and road security. The process of adjustment is continuing as the EU's contribution to PBS is being questioned (**see Annex, JC 10.2**).

*A top-down policy dialogue framework leaving no room for EU contribution at sector level*

Opening up opportunities for policy dialogue is a recurrent objective of EU management of its aid to Ethiopia and has been a success in most of its programmes, notably by leading or contributing to the DAG thematic and technical working groups. In practice the scope for dialogue in those platforms was uneven, depending both on the sectors involved and on the real authority of the chair to engage the government in the institutional or technical reforms sought. These constraints are related to GoE's understanding and practice of policy dialogue that favours very high-level meetings (between the PM and EU Commissioner) with a view to agreement on the general orientations of the five-year planning process. Once agreed, those decisions are acted on by the government without any policy dialogue on sector-level programming documents on which EU interventions have to align. The room left for subsequent policy dialogue at sector level over the following five years is then limited at best to technical issues (**see Annex, JC 10.2**).

The EU faced a recurrent issue with the quality of the expertise hired to pursue policy dialogue at sector level through studies and technical assistance, which became a disincentive for EU staff to have recourse to framework contracts or even to consider contributing at the required level to the knowledge basis of the policy dialogue. The EU's advocacy capacity at sector level and, to some extent, also at macro level is strongly limited by this issue, as staff turnover in the Delegation makes it difficult to capitalise on past experience, best practice and previous unwritten commitments to reform.

*Institutional capacity is not the driving factor*

Capacity-building was the crosscutting priority in both CSPs of the period. It was aligned on government priorities expressed and implemented in the PASDEP. Aid modalities were not chosen on the basis of careful analyses of GoE capacity. Those were often undertaken after the decision to implement GBS or SBS, for example in the road sector.

That apart, EU non-programmable instruments remain the same - with their own approach, procedures and reporting requirements - independently of local institutional capacity. The EU Delegation is not consulted on the choice of projects but still tries to introduce a certain degree of consistency with other on-going EU initiatives (**see Annex, JC 10.4**).

Synergy between aid modalities does not appear to be a priority in the EU's strategic response, or else it is regarded as a given and therefore not requiring a definite strategy, with the notable exception of food security programmes and projects falling under the Food Facility. The trade-off between aid modalities did not arise as a major issue with GoE, which shares the EU view on the high level of priority to be given to budget support. The notion of a strategic combination of various aid modalities in a given sector has not yet been assimilated. The EU's interest in budget support is known to its Ethiopian partners (mainly MoFED) and is shared, even if on different grounds. Aid modality choice is high in the DAG and EU agendas but this has not implied a specific consultation process. CSOs are however included in the EU programming process (**see Annex, JC 10.5**).

*Limited achievement on the 2006 Code of conduct*

Following the 2006 Code of Conduct the EU took the lead in a pilot exercise on overall division of labour (DoL), and particularly that between MS after reaching a dead end with international organisations and most non-EU bilateral DPs. Implementation of the work plan for improving DoL over a 12-month period proved to be much slower than expected, as the DoL strategy is still not agreed. The objective was embodied in the CSP 2008-2013 joint response strategy that appears not to have been binding on Member States.

The DP mapping was finalised by an EU consultant in 2009, showing wide scope for improvements in sector sharing, focus on comparative advantage, and more consistent sector coverage. The EU initiative was backed by local Member State agencies which contributed

actively at the various stages of the DoL process but with only limited impact on the bilateral strategies during the period, heavily influenced by HQ political priorities regarding visibility in several national sensitive areas of intervention such as HIV/AIDS or governance. However, a few initiatives are about to be launched in more neutral sectors (**see Annex, JC 10.6**).

## **5.11 FINDINGS ON THE PREVIOUS COUNTRY LEVEL EVALUATION**

The scope for comparing the 2004 CLE's findings with the 2004-2009 exercise findings is limited at programme level as the EU moves in all its major areas of intervention from a project approach to budget support (targeted or not) and basket funding (except for the transport sector). Management issues have thus been comprehensively revisited but it is interesting to observe that the findings should have helped anticipate the shortcomings in the partnership with the GoE identified in 2009. The 2004 evaluation already mentioned issues relating to policy dialogue, monitoring systems, capacity-building and empowering of decentralized layers of authority, all aspects that afterwards proved hard to manage by the EU. Governance and CSO empowerment had already been pinpointed as an area where the EU interventions had not contributed much (**for details see Annex 6**). Those issues were not reported on in the subsequent CSP which incorporated from the evaluation only very general statements selected from the most positive ones rather than building on a set of constructive conclusions.

Many of the recommendations did not anticipate the drastic shift to budget support and thus became irrelevant to further EU aid management, particularly for the transport sector. For macroeconomic support the increase of the share of GBS was implemented but, given the later shift to PBS, the EU was not in a position to introduce sufficiently the related recommendations of the 2004 CLE on capacity-building and support to the decentralisation process. Those areas of concern were addressed again in the 2004-2009 exercise. The food aid and food security area is the sector in which EU interventions aligned on the recommendations. The point regarding more active involvement in empowering CSOs through the CSF and mainstreaming in sector programmes was also taken.

In many ways, the common point of both evaluations is the strong footprint of the windows of opportunity opened up by the government in terms of the EU's ability to contribute to reaching its poverty reduction objectives.

## 6 Conclusions

The Conclusions are divided into two categories: global and specific. Meta-Conclusions relate to an overall statement on EU co-operation with Ethiopia and to issues that cut across the EU's strategic response and its implementation, such as the "3Cs" and other issues mainstreamed in all EU interventions. They are addressed to EU HQ. Specific Conclusions are more on the technical side, providing feedback on sectoral or thematic issues. They are targeted on providing the grounds for programme-related modifications and are more immediately operational. They are addressed to the Delegation.

The numbering of the Conclusions (cGx, sCy) is designed for the purposes of cross-referencing with the Recommendations.

### **GLOBAL ASSESSEMENT**

**Against the background of two severe setbacks to its governance agenda in Ethiopia, the EU succeeded in keeping its contribution focused on addressing the needs of the population by running its three main sectors of intervention (basic services, food security and road infrastructures). It accompanied significant MDG achievements by the government.**

**In the particular situation of Ethiopia, surrounded notably by Somalia and Soudan, the EU's significant contributions to development in Ethiopia were also contributions to reinforcing regional peace and stability. These underlying geostrategic stakes might have led the EU's cooperation programme into unbalanced policy dialogue (global and sector-wise) and to a move away from empowering the Civil Society to building CSOs' service delivery capacity.**

**Notwithstanding its initial distancing of itself from the federal government by funding local governments for service delivery, the European Union progressively rebuilt a privileged relation of mutual confidence with the central government that could be a suitable basis for re-entering into an overall policy dialogue.**

**On the basis of this on-going renewal of the EU-GoE partnership, the recommended priorities in the next EU strategic framework are the following:**

- 1. be more prescriptive in the organisation and content of the policy dialogue with GoE;**
- 2. modify the next NIP allocation structure within sectors so as to strengthen EU advocacy capacity and involvement in regional integration and sector institutional reforms;**
- 3. adjust the strategic framework to overcome the limits faced in promoting institutional reform and democratic governance by reinforcing the share of EU financial support directed to local governments and CSOs;**
- 4. reconsider the overall balance in EU financial support between food security and agricultural development by focusing progressively on the graduation process and subsequent phases of households' accumulation of agricultural assets;**
- 5. prepare for resumption of GBS while reducing its lack of predictability by defining a fixed tranche that is more robust in relation to politically-induced uncertainties (MDG contract) and more closely-linked to development outcomes in the performance assessment framework.**

## 6.1 META-CONCLUSIONS

**cG1.** By aligning most of its support on government policies and programmes through various types of budget support, the EU was particularly effective in fighting poverty.

Importance: **Very high**

**Aid Effectiveness performance**  
(including EU-GoU partnership)

Related findings: from EQ2, EQ4, EQ5, EQ6

In its three major sectors of intervention, the EU adopted various forms of budget support (targeted on PBS and PSNP; and on SPSP for the road sector) aligned on government sector policies. Each of these programmes was effective and achieved most of their performance targets. Several operational shortcomings were noted and proved hard to ameliorate, but none significantly impacted on the benefits of EU financial contributions for the poor.

*[link to rG2, rG3]*

**cG2.** The alignment of EU support on government programmes contributed to reinforcing already strong ownership, thus ensuring sustainability. Those gains were not achieved as equally with the programme approach in areas fundamental to long-term development prospects such as democratic governance and decentralisation.

Importance: **Very high**

**Impact and sustainability**

Related findings: from EQ2, EQ4, EQ5, EQ6

One major characteristic of the GoE is its complete control over its policy agenda, both overall and for individual sectors. The decision-making process is entirely internal to the government, with strong leadership from the PM and the Minister of Finance. The five-year planning cycle, inherited from the previous regime in one way or another, is still providing an opportunity for the government to express its vision, objectives and mid-term budgetary framework. The national five-year plan already provides the major orientations for sector policy and programmes, detailed only in sector planning documents for the same period. Ownership of the policy agenda is therefore strong at government level, and imposes itself at all political and administrative layers of authority.

By aligning on this policy framework and channelling its financial contribution through the budget, the EU contributed to achieving the planned targets without challenging the government's capacity to improve local government management capacity. Sustainability is being ensured by the financial capacity of the government and its improved resource base at the end of the reference period.

A more challenging project-based approach to empowering Civil Society or building institutional capacity, notably with local government, failed to gain explicit support from the government and did not achieve significant results. *[link to rG2, rG3, rG5]*

**cG3.** Both the effectiveness and inclusiveness of policy dialogue have been limited, even in EU focal sectors, by the top-down approach to decision-making proposed to DPs and agreed by them, notably the EU. Major strategic shifts in EU interventions were at the cost of policy dialogue. The geostrategic position of Ethiopia might have imposed an effective limit on EU insistence on effectiveness of the policy dialogue at middle level.

Importance: **Very high**

**Aid Effectiveness performance**  
(including EU-GoU partnership)

Related findings: from EQ1, EQ3, EQ5, EQ8, EQ9

Improving performance through policy dialogue is a major EU objective in each supported sector. It can be proportional to the weight of its financial contribution but it is a building block for budget support aid modalities. Overall the effectiveness and inclusiveness of policy dialogue (at middle level) has been limited, even in the EU focal sectors. Even mutually-agreed dialogue platforms common to DPs and the government received limited attention from ministries.

Both partners, the EU and the GoE, are responsible for this situation. For the EU, the shortcomings in sustaining dialogue are the outcome of:

1. abandoning the institutionalised and agreed GBS dialogue platform for PBS in which the peculiar EU relationship with GoE based on jointly-agreed NIP and grant aid is offset by a collective DP undertaking with an almost non-existent policy dialogue;
2. limiting the aid modalities mix at sector level (e.g. the road sector), and therefore limiting the scope for dialogue to checking of planned achievements rather than institutional reform, policy framework comprehensiveness, and mid-term financial visibility and balances; *and*
3. an inability to fuel policy dialogue with expertise at the required time or quality standard.

On the GoE side the understanding of policy dialogue is very different from the pattern with which the EU is familiar. It consists in imposing a top-down approach rather in line with its own internal five-year planning process. The overall five-year plan is shared with DPs only after being approved internally through several national consultation processes. When shared, it is first done only with the two main partners (EU and the World Bank) during a high-level retreat with the PM, Cabinet, EU Commissioner and WB President. Discussions are said to be frank and without taboo at that level but, once agreement is reached, all subsequent sector programming documents are barely open to discussion or dispute, thus closing the door to dialogue unless on very technical and operational issues. The EU has therefore been unable to contribute to the sector policy frameworks, the institutional set-ups, or the mid-term financing framework, all basic to the EU understanding of sector budget support.

The stabilising role devolved to Ethiopia in the regional conflicts in the Horn of Africa might explain to a large extent the EU's low profile on the governance agenda and its limited insistence on enlarging the scope of policy dialogue platforms. This situation has weakened significantly the EU's capacity to identify locally efficient incentives or leverage to sustain a policy dialogue platform on further reforms and adhere to them more strictly during programming phases. *[link to rG2]*

<b>cG4.</b> EU-sponsored innovative approaches in PBS and PSNP implementation (essentially social accountability and CSO involvement) were adopted by the government, even though it provided only a limited financial contribution.	<b>Importance: High</b>
	<b>Strategic approach and programming</b>
	Related findings: from EQ1, EQ4, EQ6, EQ8

In contributing to the design of the programmes to be funded through budget support, the EU introduced some innovative approaches that could potentially help the administration move away from its traditional top-down and authoritative management of service delivery on behalf of the poor. The most significant buy-in was the social accountability component of PBS, but the CSO co-financing within PSNP could be another significant landmark in the direction of a highly-needed change in administrative practices.

No such window of opportunity was found by the EU in programming its road SPSP to promote an integrated approach involving the transport industry within the sector policy framework. The same limit was encountered in its interventions related to the shift from food security to rural development, there having been government reluctance to allocate enough resources to promote private farming. The partnership with market forces within a balanced regulatory framework still appears to be the demarcation line that will define whether or not Ethiopia becomes a modern State. *[link to rG1, rG4]*

<b>cG5.</b> Local government capacity shortcomings remained out of EU reach, whether directly (PSCAP) or indirectly (PBS, Road SPSP, PSNP). They impeded the effectiveness and impact of EU-supported programmes, especially in emerging regions.	Importance: <b>Very high</b>
	<b>Implementation performance</b>
	Related findings: from EQ1, EQ4, EQ6, EQ7, EQ8

The bulk of EU interventions are managed by local governments, particularly budget support programmes. Most operational shortcomings relate to the lack of human resources, institutional capacity, and timely budgeting. These are intensified in emerging regions. Although identified early, those issues proved to be still too ingrained, at the stage achieved over the last ten years of decentralization, to be structurally improved or compensated for by EU direct contributions and targeted projects.

EU resources channelled through the national and regional budgets are systematically allocated to investment (PBS, road SPSP) and operations (PSNP), capacity-building being opportunistically left to other less reliable and cheap external sources of funding. Besides the fact that capacity shortcomings preclude value-for-money from EU resources, this government management of external donors encourages aid fragmentation. *[link to rG2, rG3]*

<b>cG6.</b> The performance evaluation framework agreed with the government for the bulk of EU budget support was too much aligned on five-year sector programming documents to be a true incentive for policy reform or even significant operational restructuring. The data provided by the government monitoring systems were neither adequate for fully assessing programme performance nor sufficiently reliable to use for the variable tranche incentives of SBS.	Importance: <b>High</b>
	<b>Aid Effectiveness performance</b> (including EU-GoU partnership)
	Related findings: from EQ1, EQ4, EQ6, EQ8

While alignment facilitated a high level of effectiveness in EU interventions and ensured their sustainability, at least away from the democratic governance area, the lack of room for policy dialogue during programme implementation was also prevalent during the formulation stages. The window of opportunity to introduce a push for policy reforms, significant institutional restructuring, or mid-term financial commitments was lost in the process of recovering DP support following the 2005 post-electoral crisis.

The thrust at that time for aid harmonisation and alignment was most likely a driving factor in bringing the EU to agree on innovative aid modalities under a pool-fund umbrella. Within this momentum the level of incentives for sector reforms was kept low, most of the DP's expectations of change being invested in still-awaited empowerment of local government.

For what remains from the performance evaluation framework, the government system has proved unable to gather data that would allow a follow-up of SMART indicators, and in some cases there is a risk of overestimation of programme achievements, as with road conditions in the EU road SPSP. *[link to rG1, rG2]*



<p><b>cG7.</b> Ethiopia is challenging EU's paradigm of democratic governance sustaining economic growth by successfully adopting macro-economic and development best practices with EU support, while reducing the scope for a Civil Society voice on governance and human rights, against EU advocacy.</p>	<p>Importance: <b>High</b></p>
	<p><b>Strategic approach and programming</b></p>
	<p>Related findings: from EQ1, EQ3, EQ5, EQ7, EQ8</p>

Ethiopia is a DPs' paradox and throws into sharp relief the relationship between development aid and sovereignty. It therefore calls into question the EU's delineation of partnership under the Cotonou Agreement.

During the period under review, the GoE to a large extent applied development agencies' best practices (including the EU's), achieving double-digit GDP growth, improving basic service delivery through decentralisation, extending and maintaining the road network, and organising successfully the phasing-out of food aid. The achievements are on average below the DP community's expectations but progress is widely acknowledged, along with a sense of ownership, flexibility, pragmatism and a long-term vision of the country's development.

The GoE was initially committed to improving aid effectiveness in the spirit of the Paris Declaration, with an exemplary record of alignment and harmonisation, notably through DAG-supported pool-funds and general budget support, even if eventually one of the major donors blocked the process. However, despite this exceptional development record when compared to most SSA countries, the 2003-2004 commitments of the PASDEP on the democratic governance agenda gave way to major setbacks (the 2005 post-electoral crisis management, the 2009 Charity Societies Proclamation) that proved not to be negotiable either with the EU or with other DPs.

The Cotonou Agreement did not provide ready-made answers to conflicting situations arising from the government's democratic governance agenda, agreements on development policy being easier to address. The EU reacted very differently on the two conflict issues, failing to provide a clear framework for partnership with the government.

The EU's will to address jointly both agendas with very different internal constraints, namely financial disbursements on the one hand, and political accountability relating to EU democratic values on the other, raised new challenges that the Cotonou Agreement and EuropeAid's procedures (regulations, arbitration, etc), instruments and aid modalities proved unable to tackle in an explicitly balanced way.

*[no attached recommendation]*

<p><b>cG8.</b> In addressing the GoE's changing democratic governance agenda, the EU demonstrated only limited capacity to anticipate unintended effects of its strategic choices on its standard aid modalities (GBS), for example on hybrids such as PBS.</p>	<p>Importance: <b>High</b></p>
	<p>Related findings: from EQ1, EQ5, EQ8</p>

The cancellation of GBS for reasons solely of a political nature (the 2005 post-electoral crisis management by the GoE) makes this aid modality more politically sensitive than when it was initially conceived, and thus less predictable than less ambitious aid modalities. It is the main reason for GoE's attachment to PBS, which is fully predictable and with limited policy dialogue requirement, despite the relatively heavy financial accountability and transparency checks suited to the federal practice of controlled decentralisation.

This strategic choice by the EU to use pool-funds managed by an external agency, *vis-à-vis* a wide range of internal aid modalities, instruments, and so forth, tends to indicate either the predominance of political issues in development aid, or the limited human resources available

in Delegations (including external expertise that is both timely and suitable), which precludes flexibility of reaction in special situations.

SBS and other BS modalities (such as PBS) led to aid fragmentation and less overall alignment and harmonisation than a fully-fledged GBS would have made possible. Even in pool-fund frameworks small DPs, particularly bilateral aid agencies, develop flexible approaches to answering needs that emerge in the process, whereas major DPs such as the EU and WB adhere to the overall framework.

The EU Delegation was instrumental in adjusting to the GoE's peculiar approach to policy dialogue. The scope for adjustment was however limited by the fact that all resources were allocated to budget support, with little left over to maintain a day-to-day working relationship and thus a continuing dialogue at several levels and with a wider range of partners (from EQ1, EQ3, EQ5).

The pool-fund solutions adopted after the 2005 crisis were designed to signal distancing from the federal government. They did not work that way. GoE is committed to PBS because it performs and suits its primary objective of stability and national integration. Even the social accountability (pilot) component suits the federal government, as it reinforces decentralisation and applies only to local governments, with the more political voice aspects curtailed. For sector policies such as education and health supported by PBS, local governments essentially apply federal policy. There was thus little or no difference compared with GBS apart from the loss of a central-level dialogue platform on federal policy issues, which from the GoE point of view was an extra benefit (i.e. reduced policy dialogue transaction costs, fitting in with its view of top-down dialogue) (from EQ1, EQ7).

*[link to rG1, rG2]*

## 6.2 SPECIFIC CONCLUSIONS

### 6.2.1 GBS AND PBS – SUPPORTING PRIMARY EDUCATION AND HEALTH (EQ 1 AND 2)

**cS1. [VERY HIGH]**<sup>37</sup> In terms of service delivery, the education and health sector budgets have benefited from significant increases during the PBS. This has led to greatly improved access to core social services. The close alignment (inside PBS) on government systems seems to have enhanced the Government's commitment to protecting basic services. There have been no major issues with the absorptive capacity of the government system but quality issues remain a problem. However, care should be taken not to raise a false dichotomy between quality and access, as there is still an unfinished agenda of reaching substantial numbers of still-unreached children and clients, and ensuring that they are provided with education and health care.

**cS2. [HIGH]** GBS was the most aligned aid modality with the lowest transaction cost, providing an effective channel for supporting poverty reduction, while maintaining a broad and encompassing policy dialogue. Compared to the conventional project modality, PBS has also achieved a considerable reduction in transaction costs owing to the block grant character of PBS; the vast majority of funds have been channelled directly into the intergovernmental fiscal transfer systems in Component 1, thus reducing costs substantially. This consequently reflects a key benefit of general budget support and has made possible close alignment and harmonisation of support (again especially in component 1). Yet in the Health MDG Component donor-specific requirements and aid fragmentation have been more pronounced, albeit with an improving trend over time (especially in PBS II).

**cS3. [HIGH]** Compared to budget support, policy dialogue has centred more on financing and local public financial management, whereas the budget support period was characterised by a much wider range of issues subject to discussion, including macro-economic and political

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<sup>37</sup> For specific conclusions, the level of priority is given in bold between brackets. The referencing is done at EQ level.

topics. Following the dramatic events of 2005, the lack of dialogue in PBS on broader governance (political included) and reform issues has limited the government's incentive to resume budget support, as such issues are outside its comfort zone. This has probably complicated efforts by the EU and other DPs in their attempt to re-engage the government in a more encompassing dialogue. Yet the dialogue seems to have progressed favourably during PBS II, albeit with clear limits especially in terms of political governance at both local and central levels, on which the government is less inclined to engage in serious dialogue.

**cS4. [MEDIUM]** While PBS was initially seen as (partially, at least) a substitute for general budget support, this perception is now fading. Instead PBS is increasingly becoming a more standard programme, albeit with a large volume of funding and with potentially the most aligned aid modality currently available in Ethiopia. This may prove to have serious, and still underestimated, consequences in terms of undermining efforts aimed at **limiting** aid fragmentation and promoting alignment as DPs no longer consider PBS the default framework for aligning their assistance on the core sectors of PBS, for example health and education, instead initiating discrete projects with less aligned modalities and higher transaction costs. Consequently, PBS does not offer the same robust alignment incentives that GBS does.<sup>38</sup>

**cS5. [LOW]** The predictability of aid flows in PBS has been partially hampered by the use of World Bank procurement systems, especially in the initial phase and mainly in the health component. However this relates to predictability within the given aid allocation. The **overall** predictability of aid has improved, as PBS has not been as vulnerable to politically-induced unpredictability as budget support proved to be. This is a key benefit which is highly valued by both government and DPs, albeit reducing the incentive for engaging in discussion on resumption of general budget support.

## 6.2.2 ROAD SBS (EQ 2 AND 3)

**cS6. [VERY HIGH]** The significant progress in implementing a renewed policy framework during the period under review makes it the best success story in Sub-Saharan Africa in terms of reforming the road sector in line with international best practices promoted by the EU and WB: a comprehensive policy framework; capacity development in federal and decentralised road agencies; maintenance needs covered by RF **revenues** levied on users; increased contracting-out of maintenance work; and use of labour-based and mechanised maintenance in rural areas - all of which are remarkable achievements for one of the poorest countries of the world, all the more so for one which sprang free from a Leninist regime only ten years ago. There are still numerous shortcomings (particularly the lack of rationalisation of maintenance programming, contract management weaknesses, the prevalence of forced accounts in regions, the lack of interest from the transport industry) in implementing a comprehensive transport policy, but the basic expected outcomes are there: improved road conditions, increased access to permanent roads, and better links to external markets.

**cS7. [HIGH]** The EU move to SPSP in the road sector institutionalised an already existing policy dialogue which had been led in a coordinated manner by the EU and WB. All variable tranche indicators were achieved (except that relating to the **institutional** framework of road safety) and often exceeded. They were taken from the sector RSDP and did not provide much support for developing the usual areas of policy dialogue such as institutional reform, financial predictability, force account, and so forth. The situation is improving after some years of limited reactivity and attendance by the two ministries involved. The EU has not been provided with readily verifiable data for the most strategic tranche indicators, those relating to road condition. Only national averages are provided by ERA that required the EU to visually inspect some roads to confirm their reliability when checking the latest disbursement dossier. Averages can be interpreted in different ways, especially for a network undergoing major extensions and rehabilitation. Regionalised data were available with ERA but were not

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<sup>38</sup> Under GBS government and donor peer pressure is arguably stronger, ensuring that most support to core social services provided by government is channelled through the most aligned modality.

transmitted to the EU. But the Transport Poverty Observatory supported by the WB provides extensive datasets that provide evidence of better road conditions; better access to road transport and thus to markets; increased traffic; and decreased travelling time - which taken together are more than useful for analysing SPSP outcomes and, to some extent, impacts.

**cS8. [MEDIUM]** The timeframe of the sector policy framework is a recurrent weakness in respect of roads (and transport generally) and the worldwide experience of the EU was not sufficiently shared with ERA in this respect. The same applies to encompassing transport services within the policy framework while an increasing gap between vehicle operating costs and freight tariffs generates structural dysfunctions. The **huge** capital investment in roads, even though insufficient to recover from the initial backlog or to approach the SSA average, has had negative effects on road works pricing (above international averages) and quality, which are structurally related to the weaknesses in the domestic construction industry which, in its turn, did not receive timely support.

**cS9. [MEDIUM]** Policy dialogue at technical level, within the TSWG, is weakened by the discrepancy introduced by the practice of co-chairing by the Ministry of Transport, whereas the only beneficiary of the EU SPSP programme is the Ministry of Works through **ERA**. This pattern might become useful for integrating transport services in overall transport policy in the future, but on the other hand it has led to only limited commitment to reforming the institutional framework. Following the 2010 GoE proclamation, ERA has been placed under the control of MoT and, in this way, the specific and important issue of MoW/MoT coordination has been addressed.

**cS10. [LOW]** The EU contributed significantly by providing budgetary resources to increase ERA's (and to a lesser extent RRAs') absorption capacity for achieving the RSDP **results**. Its capacity-building services project, by providing training and technical assistance, meets a strong demand and is initiating a process of much-needed qualitative development of road agencies and, to a lesser extent, the Road Fund.

### **6.2.3 FOOD SECURITY (EQ 5 AND 6)**

**cS11. [VERY HIGH]** The EU has concentrated the bulk of its assistance in the food security and rural development sector on PSNP in recent years. Yet PSNP covers only about half of the districts of the country. A large majority of Ethiopians depend on the agriculture sector, which is fragile and certainly offers much potential for improvement. Some farming systems supporting very high population densities have been relatively neglected. Many of the pathways out of poverty are likely to depend on agriculture - at least in the medium term - whereas safety-net programmes such as PSNP, however successful, are less likely to lift substantial numbers above the poverty line.

**cS12. [VERY HIGH]** Substantial overall and agricultural growth in recent years has brought about a general improvement in the agricultural and food security situation in Ethiopia. EU-supported PSNP has helped poor and food insecure households participate in this development, reduce food gaps, build assets and become more resilient against shocks. The EU support therefore contributed to MDG 1 and, given the harmonised donor framework adopted for the PSNP, it also contributed to MDG 8 on partnerships and the Paris Declaration on Aid Effectiveness. (from JC 6.5)

**cS13. [HIGH]** Through the PSNP support the EU contributed to the important step of an overdue policy shift from the previously-applied general emergency food aid approaches to more development-oriented food security programmes. Improvements in **household** food security proved particularly significant, especially if PSNP transfers are combined with support for investment in agriculture. Land registration and certification is at an advanced stage of implementation. It is widely appreciated by the population. It has encouraged natural resource conservation and more sustainable land use practices and investments in land protection; has helped avoid and resolve land disputes, and has strengthened the role of women who have

achieved an equal right to possess land. Linking PSNP with household asset-building (HAB) helped incorporate this experience into further PSNP implementation.

**cS14. [MEDIUM]** Although food aid for assisting poor and chronically food-insecure people will be gradually phased out and replaced by cash, it will continue to be required as an emergency response. By transferring the responsibility for EU food aid operations to ECHO in 2007, the EU has made it clear that it would confine further EU food aid to humanitarian relief in Ethiopia. If current trends in agricultural production growth continue, an increased share of the food aid needed can in future be procured on the domestic market, thus strengthening the domestic food market. Spearheaded by the EU, local purchases of food aid have already been made in Ethiopia in the past.

**cS15. [MEDIUM]** The planned approach to substituting food aid by cash in PSNP transfers, thus giving PSNP beneficiaries freedom of choice in their consumption decisions and strengthening the market economy, has not yet materialised. The reasons for this are past food price inflation, delayed and inadequate adjustment of cash transfers to the value of food transfers, and the type and amount of resources made available to the programme. The common delays in the payment of PSNP transfers by several months are jeopardising the objective of bridging food gaps in **times** of need. The reasons for such delays include management deficiencies, capacity constraints, delayed reporting, and delays in the provision of funding by DPs, due partly to the fact that conditions for the release of funds are rigidly applied by the EU and other donors. Natural resource conservation and rehabilitation measures are a particularly appropriate approach to the public works component under PSNP; and such measures are badly needed, given the depletion and deterioration of natural resources. There are frequent complaints about the quality of work implemented under the public works component of PSNP.

## **DECENTRALISATION (EQ 7)**

**cS16. [HIGH]** The success of the decentralisation process seems mainly attributable to the strong national commitment to improving local service delivery. Yet the EU support has accelerated the already-initiated decentralisation process by providing capacity development and, more important, funding, the latter primarily through PBS.

**cS17. [MEDIUM]** The increased financial support from the EU, notably through PBS in relation to local governments, has improved their legitimacy as well as service delivery. Yet while there has been political decentralisation, the federal government retains considerable powers and the bargaining position of local government remains weak. However, the strong centralised power is probably also encouraging high discipline among local governments and helps maintain reasonably robust governance levels in front-line service delivery. Thus the health and education sectors are not prone to the same accountability failures found in many other developing countries that too often result in high absenteeism rates for teachers and health workers.<sup>39</sup> Top-down discipline is arguably a key ingredient in explaining this success.

**cS18. [MEDIUM]** Conversely the decentralised, NGO-focused, bottom-up accountability approach promoted by DPs in PBS has had limited impact. This is partly due to the very limited nature of the pilot, but also due to limitations imposed by government on the role that Civil Society can play in holding local governments to account. More fundamentally, it is yet to be demonstrated that strengthening decentralised accountability in Ethiopia is in line with traditional donor-supported approaches to using NGOs to enhance voice and political space.

**cS19. [LOW]** There have been significant attempts to promote more harmonised and aligned aid modalities in the area of decentralisation. Yet too many DPs seem to believe that they have comparative advantage in the governance area. This undermines efforts aimed at promoting a more effective division of labour.

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<sup>39</sup> However, some of the emerging regions do display these governance failures.

## 6.2.4 CIVIL SOCIETY (EQ 8)

**cS20. [VERY HIGH]** Democratic governance was the major area of difficulty faced by the EU in its support to Ethiopia during the evaluation period. The post-electoral crisis in 2005 and then the 2009 Charities Law were real concerns as they affect both EU strategy in this area and agreed progress enshrined in PASDEP. Strongly-expressed DP concern - notably by the EU - about the Charities Law enactment proved ineffective; GoE advocates regulation of a mushrooming and formerly uncontrolled activity. The Proclamation restricts activities to foreign-funded organisations. Furthermore, its Article 14-2 “definition of charity activities” potentially introduces a grey area that make possible discretionary decisions which run counter to improvements in democratic governance<sup>40</sup>.

**cS21. [HIGH]** The EU has made a major contribution to increasing CSOs’ credibility and capacities. However, the EU-funded CSO mapping in 2008 revealed only limited overall progress in capacity development, accountability to constituencies, and sustainability. The EU Civil Society Fund (CSF) was effective in supporting a limited number of CSOs but only in areas initially supportive of policy dialogue with local governments and capacity-building. Coming at the end of the evaluation period, the Charities Law put an abrupt end to progress observed in promoting CSOs’ activities in advocacy on human and political rights, as this area is now left to “Ethiopian” CSOs, defined as receiving less than 10% of their budget from foreign sources. Most CSOs formerly involved in those activities are moving back to service delivery or, at best, to rights-based policy activities (including the PBS social accountability component) within GoE sector programmes.

**cS22. [MEDIUM]** The EU was pro-active in devising with GoE ways of carrying on the CSF project within the new regulatory framework enacted in 2009. NIP resources are now assimilated into national resources, owing to the joint nature of the programming process, and for CSF the same applies to the implementing process (tripartite management). This will allow the EU to pursue its funding of CSOs through government programmes and CSF. However these developments apply neither to the EIDHR thematic budget line, activities under which had to cease in Ethiopia, nor to other DPs usually supportive of CSO involvement in human and political rights.

## 6.2.5 CONFLICT PREVENTION (EQ 9)

**cS23. [MEDIUM]** The EU’s (relative) focus on conflict prevention in the CSP 2002-07 was not renewed for the 2008-13 period. It was mainly targeted on regional issues (ethnic disputes, resource-based conflicts, livestock raids) and thus logically passed over to the RSP. Internal root causes of conflicts were therefore lost sight of and diluted in a **RIOs** capacity-building and strategy-drawing exercise (CPMR). No effect on conflict prevention could be identified, while other non-EU regional programmes proved more efficient (particularly IGAD, CPAT and CEWARM).

**cS24. [MEDIUM]** Most expectations in respect of treatment of the root causes of conflict are grounded in poverty reduction through the existing focal sectors. Mainstreaming is not conceived as an option, and is therefore limited. Even in sector **support** strategies or thematic financing agreements, conflict prevention has not been taken on board, with the exception of two micro-projects financed under the CSF. The full alignment of EU SWAp on GoE priorities does not give much space for mainstreaming unless the concern is shared by the government, which is not the case.

## 6.2.6 AID EFFICIENCY (FROM EQ 10)

**cS25. [VERY HIGH]** The exceptional record of extending budget support to all main sectors of EU cooperation can be **only** partly attributed to GoE’s performance. It has also been, and

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<sup>40</sup> The Delegation does not share this view.

may still be, mainly related to the shared commitment to budget support as the preferred aid modality, admittedly for different reasons. This paved the way for flexible understanding of EU GBS/SBS principles and allowed testing of budget support hybrids. On technical grounds the EU is now considering returning to more normative approaches, notably re-introduction of policy dialogue in its partnership with GoE.

**cS26. [HIGH]** In the implementation of its strategic response, the EU was not enabled to manage aid modalities strategically to the required extent by adjusting the balance of its interventions to its overall objectives, institutional capacities and changes in context. The EU's internal procedures are still too top-down (particularly for thematic **budget** lines, and in some aspects of GBS-SBS programmes), and the choice of aid modality too binary (*either* a project or a budget sector approach, with no possibility of a mix that would allow both progressive ownership and more flexibility for the EU), for fine-tuning of the implementation strategy to be possible. Even in its decentralised procedures, the EU internal decision-making process is still far too centralised and leaves limited room for adjustment to the local context. It is also too slow in reacting to positive opportunities, at least if standard procedures are followed in full. The EU-GoE joint programming exercise, even if done with extensive consultation and taking on board GoE's acute sensitivities, did not provide a strategic framework that would facilitate aid modality combinations potentially capable of introducing more flexibility.

**cS27. [MEDIUM]** The EU contributed strongly to providing the DAG with a real dialogue platform, particularly in sectoral working groups. Donor coordination in Ethiopia is strengthened by the involvement of the GoE, specifically the MoFED, and strongly favours targeted and sector budget support. It allowed a higher-than-usual level of coordination and complementarity in external support. The EU initiative in drawing up a joint strategic response with Member States in the CSP 2008-2013 was not considered as binding on bilateral agreements. The situation revealed by the donor mapping exercise undertaken in 2009 is far from ideal, with DPs crowding into politically-visible sectors (governance, agriculture, HIV), irrespective even of their perceived comparative advantages. The EU-led Division of Labour exercise, which first started with all DPs and was subsequently limited to EU MSs, has generated only limited improvements to date, demonstrating the need for a political initiative both from HQ and from GoE.

## 7 Recommendations

The five meta-recommendations, prioritized, are the following:

1. **Prescribe a policy dialogue organisation compatible with EU objectives and instruments**
2. **Modify the allocation structure within sectors to strengthen EU advocacy capacity and involvement in regional integration and sectoral institutional reforms**
3. **Adjust the strategic framework and the content of policy dialogue to overcome limits faced in promoting institutional reform and democratic governance**
4. **Reconsider the overall balance in EU financial support between food security and agricultural development**
5. **Prepare for resumption of GBS while reducing its lack of predictability by defining a fixed tranche that is both more robust in the face of politically-induced uncertainties and also more closely linked to development outcomes.**

They address the three main aspects of EU aid to Ethiopia that need to be improved: strategic response and programming, aid effectiveness (focused on the partnership), and programme implementation, and they are presented in line with those categories.

The following strategic recommendations are addressed as lessons learned, mainly to DEV and AIDCO Headquarters. Related operational recommendations are mainly addressed to the Delegation(s) although some are of a more general nature.

<b>Prescribe a policy dialogue organisation compatible with EC objectives and instruments</b>	Ranking:	<b>1</b>
	Aspects addressed:	<b>Aid effectiveness performance (incl. partnership)</b>
	Related conclusions:	cG2, cG3, cG5, cS3 <sup>41</sup>

### Related strategic recommendations

- Prescribe a differentiated organisation for policy dialogue in accordance with the corresponding levels of authority in the partner government.
- Focus high-level policy dialogue platform only on fundamental options, that is to say building a regulated partnership with the main agents of market forces and with other NSAs. Resuming GBS would contribute to creation of such a platform, notwithstanding that its priority level in the EU's overall strategy is changing.
- Scale up the volume and quality of EU internal and outsourced inputs in policy dialogue, mainly upstream programme operational issues.

### Related operational recommendations

- Within the BS approach, keep available at sector level an unallocated budget of the order of maybe 2% to cover expertise or short-term TA needs for either informing the EU side of the policy dialogue or for responding to beneficiary requests for studies or specific international advice. (from cS10)
- Invest more resources in PBS with a view to innovating new ways of entrenching decentralised legitimacy. The local investment grants piloted in the previous phase hold

<sup>41</sup> This refers to the numbering of conclusions: cGx for global conclusion, and cSx for specific conclusions.



significant potential for both increasing such legitimacy and stimulating more citizen–government engagement and dialogue, which in turn may be more effective in promoting social accountability. (from cS17, cS18)

- The EU should take a strategic decision on whether or not to continue its engagement in several programmes in the ‘sector’ or concentrate on PBS. Given the strong focus on PBS, there are strong arguments for concentrating on making PBS the main vehicle for supporting decentralised service delivery and promoting local accountability. This would also be consistent with the division of labour agenda. (from cS16, cS19, cS27)
- Advocate strongly for systematically involving CSOs in government programmes supported through GBS, SBS or PBS-like interventions. Their involvement should not be limited only to service delivery but should encompass policy issues (participative design, rights-based policy initiatives) and social accountability. This mainstreaming will help CSOs survive, develop their capacity, and enhance their credibility as government partners. (from cS20)
- Consider including the Ministry of Works in the co-chairing of the TSWG, either by introducing a chairmanship rotation, or by allowing three co-chairs. (from cS9)

<b>Modify the allocation structure within sectors in the next programming cycle to strengthen EC advocacy capacity and involvement in regional integration and sectoral institutional reforms</b>	Ranking:	<b>2</b>
	Aspects addressed:	<b>Implementation performance</b>
	Related conclusions:	cG2, cG3, cG4, cG6

**Related strategic recommendations**

1. Increasingly mainstream democratic governance and the addressing of the root causes of conflict issues in regional integration, first as a matter of advocacy and then through regional programmes; this increased EU involvement would support conflict management and peace-building at regional level, notably through natural resources (mainly water) joint management, for example with South Sudan.
2. Allocate a higher share of resources to innovative partnerships between the local government and the CSOs within budget sector programmes.
3. Allocate a larger share of EU resources outside budget support, so as to allow more flexibility in answering emerging needs and for scaling up the quality and reliability of the EU’s contribution to monitoring systems and policy dialogue platforms.

**Related operational recommendations**

4. Improve monitoring of governance quality at service delivery level. It is a significant achievement that the quality of governance at that level has been maintained at comparatively high levels, while the government has simultaneously rolled out a massive programme of establishing new schools and health posts. However there are signs that accountability chains (e.g. between service providers and their clients) are weakening, not least in emerging regions. To anchor firmly and sustain the important afore-mentioned achievements, it will be important to ascertain the key reasons why most regions can maintain high quality governance at front-line level while others have more difficulty. This could also inform a wider global audience, not least as too many countries face serious governance challenges. (from cS1)
5. Complement increased funding with a focus on enhancing evidence-based learning and advocacy opportunities. While the PBS has recorded unprecedented achievement in the core social sectors, there are still concerns about the reliability of the figures. Looking ahead it will be important to improve the integrity of the data in maintaining the

legitimacy of the substantial support provided and to provide learning opportunities. Such opportunities will be further enhanced if the PBS is subject to an independent evaluation of its impact. (from cS3)

6. Focus on the single most relevant, reliable and cost effective governance indicator for social service delivery: absenteeism rates. When teachers and health workers can get away with not working when they ought to be, core accountability chains have been severed, and governance quality is compromised where it matters most to poor people. While being present at the school or health post does not in itself guarantee quality outcomes, it is nevertheless an indispensable precondition that is all too often overlooked. There are well-established and cost-effective methodologies for producing such data and it is therefore suggested that the EU promotes this aspect within the PBS. (from cS1)
7. The viability of the road SPSP performance evaluation framework as a tool for policy dialogue is fundamentally dependent on the reliability of the baseline data and on achievement of targets in disbursement dossiers. There should be an improvement in the type of data collected by RRAs, which should be independently checked and analysed by the consultant appointed to elaborate the disbursement dossiers. National average data should not be considered as valid since regionalised data, that can be checked, are neither checked by ERA nor transmitted to the EU. The Transport Poverty Observatory, funded by the WB, publishes annual results that should be used, without extrapolation, to crosscheck ERA figures. (from cS10)
8. Increase the reliability of crop data and food security information to strengthen feedback on the outputs and outcomes of PSNP. The first steps already undertaken with EU support to establish a food security information system should be followed up. (from cS12)
9. The Framework Contract (FWC) procedure has more often than not proved unable to provide the required level of expertise to strengthen EU credibility in policy advice and dialogue, SBS formulation, and feedback on lessons learned. An evaluation should be launched on DEVCO FWCs to identify major shortcomings (covering for example issues such as structural shortage of experienced experts, standardised ToRs, normative timetable, quality control mechanisms, etc.). More reactive and flexible mechanisms should facilitate a more comprehensive response to emerging needs and a higher level of expertise.

<p><b>Adjust the strategic framework and the content of policy dialogue to overcome limits faced in promoting institutional reform and democratic governance</b></p>	Ranking:	3
	Aspects addressed:	
	Strategic response and programming	
Related conclusions: cG4, cG6, cG8		

**Related strategic recommendations**

- Integrate local government capacity, democratic governance and treating root causes of conflicts strongly in the next CSP strategic response as building blocks for overall effectiveness, implementation performance and long-term sustainability. Meta-outcome indicators should be attached and prioritized in MTR and ETR, using a baseline analysis agreed with the partner government. (from cG1, cS1, cS6, cS11, cS20).
- Increase the focus of EU support to local government capacity-building, this also being done within a renewed framework from PSCAP.
- Combine systematic alignment on Government programmes and innovative approaches

through CSOs within NIP programmable resources when reviewing and designing support strategies and the aid modality mix.

- Adjust the CSP template or dedicate an addendum to allow the EU and the government to develop their respective arguments on non-consensual views in sections presenting the context and the lessons learned. Strategic response should be jointly agreed.
- Raise the level of priority given to quality of service delivery in the education and health sectors in high-level policy dialogue.

### **Related operational recommendations**

- In cases where a significant reorganisation of the response strategy is to be undertaken (and this is often done under pressure, as was the case during and after the 2005 post-electoral crisis) the EU should be in a position to mobilise additional financial resources to design rapidly an appropriate revised strategy. This would avoid dependence on readymade options not necessarily consistent with the Cotonou Agreement and the specific EC partnership with ACP countries. (from cG1, cS4, cS)
- Consider continuing and even increasing EU financial support to the transport sector so as to consolidate the achievements it contributed to, however on one additional condition, namely that transport as a whole should be covered, and not roads only. Transport services should be fully integrated into a comprehensive policy framework, most likely defined by updating the transport master plan study in order to support renewed policy dialogue. (from cS6, cS7)
- Re-open, based on an international comparative study of the Civil Society regulatory framework, dialogue on democratic governance and provide an independent assessment of the effects of the 2009 Charities and Societies Law and its implementation to date. As far as the EIDHR procedure allows, it would make sense to have the study funded under that particular thematic budget line as a way of expressing the will of the EU not to abruptly abandon the strategic response jointly agreed with the GoE in the last two CSPs. (from cG1, cS17, cS18, cS20, cS21, cS22)
- Civil Society Fund's objectives and selection criteria should be revised in the light of the new regulatory framework imposed on CSOs. It should notably define ways and means of contributing to enhancement of CSOs' credibility as government partners, opening the way to a Good Governance and Development Contract (see rG5). (from cS22)
- Accelerate efforts aimed at strengthening the capacities and bargaining position of local governments. EU efforts could focus on promoting more collective action of local governments *vis-à-vis* the federal government, which in the long term could pave the way for an association of local governments in Ethiopia. Experience from other countries (e.g. Uganda, Rwanda and Kenya) in the region could offer several learning opportunities. (from cS17)
- The EU should invest in defining a conflict prevention strategy adjusted to the very varied situations of unstable ACP countries, beyond post-conflict or LRRD, and notably to atypical countries such as Ethiopia. The concept of mainstreaming should be further explored as an appropriate way of articulating the link between development and the root causes of conflicts. The main issues to integrate into this approach would be decentralisation and equity between regions in access to infrastructures and services. (from cS23)

**Reconsider the overall balance in EU financial support between food security and agricultural development by focusing progressively on the graduation process and subsequent phases of households’ accumulation of agricultural assets**

Ranking:

**4**

Aspects addressed:

**Implementation performance**

Related conclusions: cG4, cS11, cS14, cS15

**Related strategic recommendations**

1. Increase the comprehensiveness of EU involvement in the agriculture sector to tackle the longer-term, more dynamic and more complex process of strengthening livelihoods to the extent that households become food secure on a sustainable basis. (from cS11)
2. Increase the share of capacity-building in the EU’s direct or indirect (through supporting local governments) contributions to PSNP with a view first to avoiding the frequent delays in food and cash payments, second to making adequate and timely adjustments to the value of cash transfers, and third to improving of the quality of works. This requires refocusing on improving PSNP management, communication and reporting. The EU should, together with the other DPs, use the Financial Management Taskforce of PSNP for working out solutions which help overcome the financial management problems leading to delayed payments to PSNP beneficiaries. (from cS14, cS15)

**Move towards the Good Governance and Development Contracts defined by the Communication on « The Future Approach To EU Budget Support To Third Countries » (COM(2011) 638/2). Ethiopia is probably the best case for this new approach.**

Ranking:

**5**

Aspects addressed:

**Strategic response and programming**

Related conclusions: cG2, cG3, cG5, cG6, cG8,

**Related operational recommendations**

- While PBS was the only politically-feasible mechanism available in 2005, its weaknesses are now becoming increasingly apparent. PBS, despite its robust performance in terms of service delivery improvements, provides too weak incentives for alignment and is not an adequate policy dialogue platform. In the formulation of a **Good Governance and Development Contract**, care should be taken to discuss the objective of the GBS (which should have a strong focus on poverty reduction) and the mechanism for release and suspension of GBS, to avoid a situation similar to that in 2005. In particular attempts should be made to safeguard GBS from its again becoming a hostage to issues unrelated to its poverty reduction objectives. (from cS1, cS2, cS3)
- In the short to medium term, maintain and deepen engagement in PBS with the strategic aim of eventually converting PBS support into a Good Governance and Development Contract. PBS has proved the most effective channel for supporting the government’s efforts to improve access to education and health services. It will be an important signal to both government and other DPs that, while preparing the Good Governance and Development Contract, the EU keeps committed to the PBS programme and views it as the core mechanism for channelling support to the social sectors. (from cS1, cS2, cS3)

- Enhance the ability of PBS to absorb current attempts at fragmentation. This is probably one of the most ambitious recommendations, especially given the limited interest some of the other major DPs have displayed recently. However, PBS needs to reassert its credentials in terms of bringing about the same benefits as GBS, and the EU is arguably the only major donor in PBS that harbours such an ambition and possesses enough weight to make it a reality. This will involve expanding the scope of PBS to capture support to the core line ministries involved in the PBS sector, in particular health and education. Additionally this will enhance the likelihood of translating PBS into GBS. (from cS4, cS27)
- Maintain in a given sector several aid modalities when moving towards budget support, in order to introduce more flexibility and responsiveness to the partner's demands with the aim of strengthening its policy framework or targeting newly-identified capacity development needs. National PFM rules are far less flexible than the EU allocation procedures under the project approach, leading to an inability to tackle emerging issues during the three years of a SPSP programme. (from cS25)