

The survey sought to measure objective evidence of progress against 13 key indicators on harmonisation and alignment (see Foreword). A four-point scaling system was used for all of the “Yes/No” questions:

1. “Yes without reservations” represented here as: **YES!**
2. “Yes with reservations”: represented here as: **YES**
3. “No with reservations” represented here as: **NO**
4. “No without reservations” represented here as: **NO!**

Specific technical criteria were suggested to guide responses (See Annexes). Respondents were also invited to provide a brief explanation when they expressed reservations (Categories 2 and 3 above). The qualitative information they provided has informed this chapter.

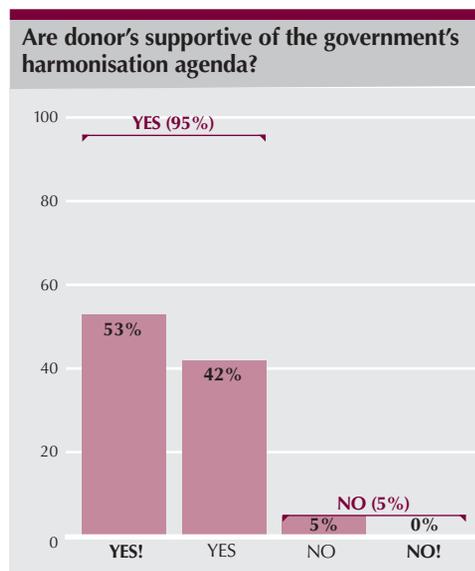
Harmonisation has been high on the Ethiopian government’s agenda since 2002 and has been given broad public support by donors. Structures are now in place to support implementation, including a stronger process for government-donor dialogue and an active joint harmonisation “think-tank” task force. Real progress is being made in harmonising budget support around the government’s financial calendar and a common matrix of indicators. But the government and donors now need to move from statements of intent to action. Indeed, it is only recently that the government released a detailed action plan for harmonisation; and many donors (especially non-budget-support donors) have done little in practice to harmonise their own country programmes. Unless the process is accelerated, which may require both government and donor representatives (including the United Nations [UN]) to play a greater role, there is a risk that the initial momentum behind harmonisation could be slowed, or lost.

OWNERSHIP

A CLEAR AGENDA ON HARMONISATION

It is generally agreed that there is a need for greater harmonisation and alignment in Ethiopia. A joint government-donor harmonisation action was officially presented to donors during the third High-level forum between the government and the donor

FIGURE 5.1
INDICATOR 1



community in May 2004 (for more information on the High-level forum, see chapter 1– Box 1.1). The plan is being discussed and is expected to be officially launched in early 2005. Critical indicators of progress made on harmonisation could be whether this plan is effectively monitored, refined and amended so as to capture lessons learned as well as emerging good practice. According to the results of the 2004 Survey on Harmonisation and Alignment, 95% of donors support the government of Ethiopia’s agenda (see Figure 5.1 – Indicator 1).

**TABLE 5.1
INDICATOR 2**

Is government co-ordinating aid?		
Is there a formalised process for dialogue?	YES!	
Is government proactive?	YES	
Is government in the driving seat?	YES!	
Do donors' rules support harmonisation?		NO
68%		
% of donors who take part in co-ordination		

FORMAL GOVERNMENT-LED FRAMEWORK FOR DIALOGUE AND CO-ORDINATION

A formalised process exists for overall co-ordination and policy dialogue, although it does not cover every sector. The government openly challenges donors to abide by its policies and to commit a greater proportion of official development assistance as budget support. It expects it will be easier to take a proactive approach in promoting the broader harmonisation agenda once a memorandum of understanding (MoU) has been agreed. This MoU will form part of the harmonisation action plan that will establish the “rules of the game”. However, one donor notes that the draft MoU places insufficient burdens on signatories. As articulated in its response to the survey, the government view is that at this stage donor practices remain unreformed.

A July 2004 Ministry of Foreign Affairs press release stated that:

At this crucial moment when Ethiopia is striving to implement the poverty-reduction strategy, it is essential that the government and the donors co-ordinate their efforts for efficient management of resources. In this regard the government has shown its willingness to make a commitment to avoid waste and to maintain transparency and accountability in its financial system. On the other hand, it requires an improvement in aid modalities from the donor community.

One bilateral donor commented that there are “strong voices from the MOFED (Ministry of Finance and Economic Development) on harmonisation, but uptake across the line ministries has been patchy at best”.

The principal mechanism of donor co-ordination is the Development Assistance Group (DAG), co-chaired by the United Nations Development Programme (UNDP) and the World Bank. Support to the sustainable development and poverty-reduction paper (SDPRP), in the form of strategic support for implementation and strategic studies, is co-ordinated through this framework and it also provides a forum for information sharing and arranging multi-donor reviews and joint missions. Other joint government-donor groups are also being established to facilitate better co-ordination (see Table 5.1 – Indicator 2).

CAPACITY DEVELOPMENT

In 2003, the donor membership in the harmonisation task force (which is government-led) was Japan, the European Commission, and the UK Department for International Development (DFID). Since early 2004, the membership has grown to Canada, Sweden, Ireland, and the US Agency for International Development (USAID). Both the UNDP and the World Bank have facilitator roles. Membership is on a rotational basis and several other donors are interested in the harmonisation agenda. Weaknesses in government capacity to manage aid have been identified in public financial management and procurement, budget formulation, execution, reporting and review and, to a lesser extent, aid co-ordination (see Table 5.2 – Indicator 3). In each of these areas, improvements have been made to systems and processes over the last several years and weaknesses are being addressed. In the area of financial management, for example, several initiatives (including the public sector capacity building programme [PSCAP]) are addressing weaknesses. The Board of the World Bank recently approved its contribution to the PSCAP (the Bank will contribute USD 100 million of the total programme value of USD 400 million) and other donors are currently going through their own agency approval

processes. However, there is a recognition that these programmes may need to address broader and/or deeper issues. It will also be important to measure the impact of such programmes.

The government feels that the level of support available for capacity building does not match its needs, and that there is still much work to be done to enhance its capacity. The MOFED recently requested that donors finance large-scale in-house technical assistance for harmonisation support.

There do not appear currently to be any plans to address capacity weaknesses in aid co-ordination, other than through the Aid Management Platform (see Box 1.6 in Chapter 1).

ALIGNMENT

RELIANCE ON PARTNERS' NATIONAL DEVELOPMENT STRATEGIES

Ethiopia's national development framework (equivalent to a poverty-reduction strategy paper) is called the sustainable development and poverty-reduction paper. It provides a shared platform which aims to achieve accelerated growth to address poverty and food insecurity problems and to reach the Millennium Development Goals. Strategies are clearly stated and a national process is in place for reviewing annual progress in implementing the plan.

Of those donors surveyed, 75% (representing some 78% of gross official development assistance to Ethiopia) claimed to rely on the SDRP to programme their development assistance (see Figure 5.2 – Indicator 4). However, one donor notes that probably all of them allocate priorities to sectors or themes different from those stipulated in the SDRP. Furthermore, not all donors support all areas covered by the plan. To give two examples: while one bilateral donor's support is targeted at areas covered by the SDRP, it places more emphasis upon democracy, human rights, civil society co-operation and gender issues; and while another's country assistance plan is based entirely upon the SDRP, it does not support all of the activities proposed in that framework (e.g. resettlement).

Capacity development		
► Have weaknesses been identified?		
In public financial management	YES!	NO
In budget planning and execution	YES	
In co-ordination of aid		
► Are weaknesses being addressed?		
In public financial management	YES!	
In budget planning and execution	YES!	
In co-ordination of aid	YES!	
► Is the level of support appropriate?		
In public financial management		NO
In budget planning and execution		NO
In co-ordination of aid		NO

TABLE 5.2
INDICATOR 3

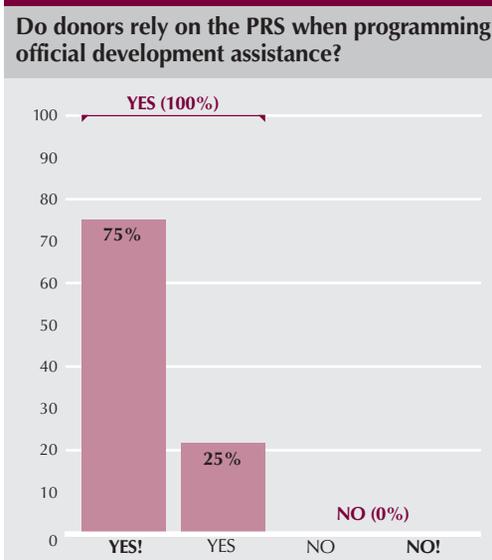


FIGURE 5.2
INDICATOR 4

The extent to which the SDRP annual progress report (APR) influences donors' resource-allocation decisions varies considerably by donor, with some donors claiming to be responsive to it and others pointing to constraints caused by multi-annual funding plans that they have already agreed. The first APR in Ethiopia was produced in December 2003. The common donor view is that, while the production of the report represented progress *per se*, its quality and the consultative process surrounding its production were both too poor for the APR to influence resource-allocation decisions. Lessons were learned from the process by all concerned and a more substantive APR is anticipated for 2004.

BUDGET SUPPORT

Several donors are preparing to make multi-annual budget support commitments, partly because their budget support programmes in Ethiopia are in their infancy and have only just been, or are about to be, piloted.

Ethiopia is one of the three countries participating in an International Monetary Fund (IMF) pilot project which aims to establish a conceptual framework in order to align budget support assistance with the implementation of countries' poverty-reduction strategies. Alignment of budget support disbursements with the SDPRP annual review and budget cycle was expected to be achieved by June 2004.

A MoU that will establish a common relationship between budget support donors and the government is being prepared. The government and all donors have endorsed a common SDPRP policy matrix. While it is acknowledged that performance toward agreed targets in the health, education, water and transport sectors could influence budget support flows, it is not explicitly stated under which circumstances reductions or suspensions of disbursements may occur. One bilateral donor comments that:

... as the MoU develops, it is probable that it will be a bit more specific about what the red lines are for disbursements; they are likely to be related to macroeconomic stability and public expenditure management (including public financial management and pro-poor spending).

BOX 5.1

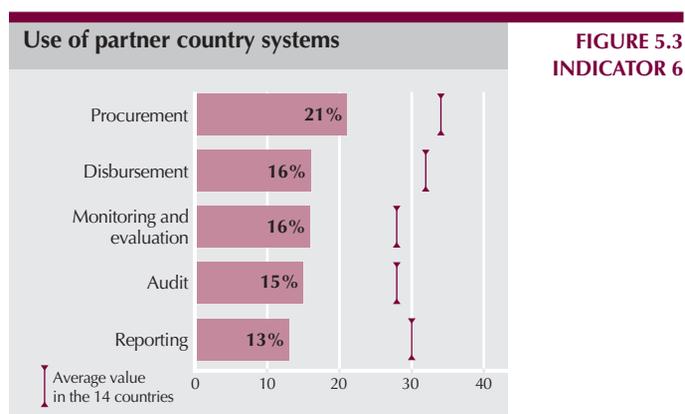
How budget support donors made disbursement decisions in 2004/2005

DONOR	CRITERIA
World Bank	11 prior conditions.
Germany	11 prior conditions.
European Commission	Fixed tranche disbursement – Poverty-reduction growth facility (PRGF) on track, plus a qualitative judgement on APR and dialogue. Variable tranche disbursement – 12 indicators.
Sweden	Core criteria: PRGF and poverty-reduction support credit (PRSC) on track, plus a qualitative judgement on the APR, especially in the areas of human rights, governance and public financial management. Subsidiary criteria: 12 indicators.
Ireland	Core criteria: Qualitative judgement on the APR, including a focus on the area of democratic governance. Subsidiary criteria: 7 indicators, monitored with interest, but not conditions to disbursement.
Canada	Core criteria: Stable macroeconomic framework and qualitative judgement on the APR, with particular focus on food security/agriculture and governance/capacity building. Subsidiary criteria: Approximately 6 indicators, monitored with interest, but not strict triggers for disbursement.
United Kingdom	Core criteria: Public expenditure and public financial management indicators, macroeconomic framework on track and qualitative judgement on APR Subsidiary criteria: 4 indicators, monitored with interest, but not conditions to disbursement.
IMF	Qualitative judgement on APR, plus prior actions to be confirmed.

Is budget support predictable and aligned?					TABLE 5.3 INDICATOR 5
Are budget support donors making:	YES!	YES	NO	NO!	
► multi-annual commitments?	Germany AfDB European Commission World Bank	Belgium Canada Ireland Japan United Kingdom	Netherlands Sweden United Nations	IMF	
► timely commitments?	Germany European Commission World Bank	Japan United Kingdom AfDB IMF	Ireland Sweden		
► timely disbursements?	Germany Ireland Japan United Kingdom European Commission World Bank	AfDB IMF			

The development of a common framework for budget support provides the context for streamlining conditionality, reducing reporting requirements and parallel missions. Donor disbursement conditions are based on the policy matrix and the European Commission has designed its budget support operation explicitly around specific indicators within the indicator matrix and the APR process. There is the risk that the matrix becomes unwieldy: donors have suggested the inclusion of around 200 indicators. Thus, the budget support donors have agreed a reduced matrix of headline indicators with the government, but there is still an understanding that progress on the SDPRP as a whole (*i.e.* the full matrix) is the basis for support. Indeed, the joint budget support mission in the third quarter of 2004 used the full matrix as the basis for discussions.

Good co-operation between budget support and non-budget-support donors was reported during discussions around the SDPRP indicator matrix. Joint donor comments were made on the development of the indicator matrix, via the DAG. This is seen as a way of avoiding the development of a two-tier system among donors, which several explicitly warn against.



See Box 5.1 for a review of how budget support donors made disbursement decisions in 2004/2005 and Table 5.3 (Indicator 5) for a summary of the extent to which budget support is predictable and aligned with government procedures in Ethiopia, as measured by the 2004 survey.

PROJECT SUPPORT

Indicator 6 measures the degree to which donors rely on partners' systems when providing project support. In comparison with other countries surveyed, Ethiopian government systems were used less than average (see Figure 5.3).

Further monitoring and measuring will be required to objectively verify the extent to which the national systems are actually used, as well as areas where capacity is weak or fiduciary risk is high, or where donor support is being provided to strengthen capacity (and if so, the extent to which donors are co-ordinating their support.)

A July 2004 government press release commented that:

If Ethiopia is to conduct effective planning, aid co-ordination and management, donor procedures need to be integrated into the government system. It is believed that rather than creating a parallel system for foreign assistance, development partners should adjust more to local procedures and where necessary help Ethiopia to bring its procedures up to international standards.

One bilateral donor, while endorsing the government's statement about donors needing to align with its systems, comments that donors are:

... not getting a clear, strong message from the government about when in the calendar budget support contributions are needed in order to be reflected in regional allocations.

—[...]

Recent discussions on the JBAR (Joint Budget and Aid Review) and budget support MoU are encouraging in this respect – for the first time we have a clear idea that indicative commitments are needed in October, firm commitments after the APR.

SECTOR SUPPORT

Health sector

Most donor respondents are active in the health sector to some degree. Some target their assistance to specific areas, *e.g.* the United Kingdom in HIV/AIDs and emergency response, and France supporting non-governmental organisation (NGO) projects in two specific regions. The survey shows that 69% of donors rely on the government's sector policy in planning their assistance. Little donor activity is integrated into the medium-term expenditure framework (MTEF), with only four donors (Austria, Belgium, Ireland and Italy) having significant proportions of their sector support in the MTEF. One bilateral donor comments that the MTEF is not yet fully operational. Problems of predictability of aid flows and timely release of funds are reported. A significant percentage (75%) of donors claim to both participate in formalised processes of co-ordination and to rely on government performance-monitoring systems. Some pooling arrangements for technical assistance exist.

A revised programme implementation manual which tackles some harmonisation issues is under development. The government considers that it exercises an appropriate level of authority in implementing health sector policy.

Education sector

A clear policy is stated in the education sector and over 80% of donors claim to rely on it in programming their assistance. As with the health sector MTEF, some donors comment that it is not yet fully operational. More than 75% of donors participate in a formalised process of donor co-ordination in the sector and use government performance-monitoring systems. A revised programme implementation manual is under development, which will consider harmonisation issues.

TABLE 5.4
INDICATOR 8

Alignment with sector programmes					
	Health	Education	Water	Transport	Agriculture
► Are sector systems in place?					
Is government leading in the sector?	YES!	YES!	NO	YES!	N/A
Does a clear sector policy exist?	YES!	YES!	YES!	YES!	N/A
Is a sector medium-term expenditure framework (MTEF) in place?	YES	YES	YES	YES	YES
Is there sector co-ordination?	YES!	YES!	YES	YES!	N/A
Is a sector monitoring system in place?	YES!	YES!	YES	YES!	NO
Are systems being harmonised?	YES	YES	NO	YES!	N/A
► Are donors supporting the sector systems?					
Are the systems aligned with government policies?	YES	YES!	YES	YES	YES
Are funds integrated into the MTEF?	NO	NO	NO!	NO	YES
Are donors using the government monitoring system?	YES	YES	NO	NO	NO

Water sector

The Water Sector Development Programme was formulated in 2002 and systems around it, such as formalised dialogue mechanisms and performance-monitoring systems, are currently under development. A government-donor water sector dialogue has been established and is attempting to reach agreement on sector harmonisation issues. At the present time, negligible donor support is integrated in the sector MTEF and, compared with other sectors, donor co-ordination and harmonisation issues are in their infancy.

Transport sector

The government has a clear roads sector policy, with established donor co-ordination processes, performance-management systems and agreed processes for moving towards greater harmonisation. Approximately 60% of donor respondents are active in the sector. Most of them participate in the formal co-ordination process, and all follow the national strategy.

Rural development

All donor respondents are active in the agriculture and rural development sector to some extent. Most action to date has focused on food security for the most vulnerable part of the population. Sector or sub-sector investment programmes have not been developed for higher potential agricultural and rural economic growth. A National Food Security Steering Committee is in place, involving some major donors. A Food Security Monitoring and Evaluation Plan is being developed by the Ministry of Agriculture and Rural Development, in consultation with donors.

Other sectors

Other sectors and themes receiving support from multiple donors include private sector development, governance, capacity building and gender. An example is PSCAP, the multi-sector, multi-donor programme designed to meet capacity-building needs to implement poverty-reduction strategies in a decentralised public service structure.

One bilateral donor comments that while it is true that the government has taken the lead in the development of sector strategies, line ministries have failed to show the same drive in pushing donors towards more harmonised financing mechanisms for those sectors. The donor see this as the key barrier to greater alignment and common financing mechanisms at the sector level.

**TABLE 5.5
INDICATOR 7**

Are donors streamlining conditionality?	
Direct budget support	NO
Health sector	NO
Education sector	NO
Water sector	NO
Transport/road sector	NO
Rural development agriculture	NO!

HARMONISATION

STREAMLINING CONDITIONALITY

Indicator 7 looks at the extent to which donors have streamlined conditionality when providing development assistance in a number of specific areas (e.g. budget support, sector level). Responses suggest that streamlining to date has been poor (see Table 5.5).

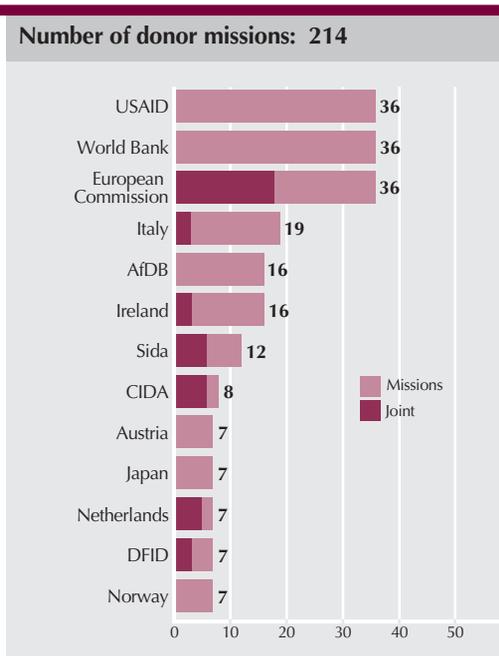
**TABLE 5.6
INDICATOR 9**

Who is delegating co-operation?			
YES!	YES	NO	NO!
Austria	Germany		Canada
Ireland	Italy		Finland
United Kingdom	Japan		France
United States			Greece
IMF			Netherlands
United Nations			Norway
World Bank			Sweden
			AfDB
			European Commission

DELEGATED CO-OPERATION

The survey shows that 37% of donors are party to such an agreement and perform tasks on behalf of other donors (see Table 5.6). Examples include Italian delegation of tasks such as procurement, disbursement and monitoring and evaluation to multilateral agencies such as the World Bank and the UN system in some circumstances and the Japanese co-operation with USAID in the context of HIV/AIDS programmes.

**FIGURE 5.4
INDICATOR 10**



DONOR FIELD MISSIONS

Donors reported approximately 200 donor missions to Ethiopia in 2003, of which approximately 20% involved more than one agency (see Figure 5.4).

One bilateral donor noted that there is a need to identify some relatively “quick wins” if the government and donors are to stay fully engaged in the harmonisation agenda and suggests that one such “win” might be for the government to request a “quiet period” of three months during every year in which they would not meet with international missions.

STREAMLINING DIAGNOSTIC REVIEWS

Four diagnostic tools were deployed by joint donor teams, all of which were undertaken jointly (see Table 5.7). There is now a focus on capacity building to support the CFAA outcomes as part of an integrated CFAA/CPAR action plan. With alternative and combined tools being piloted, including those in initiatives such as public expenditure and financial accountability (PEFA), there will be a need to ensure that appropriate monitoring arrangements are in place.

DISCLOSING INFORMATION

A critical dimension of the harmonisation and alignment agenda is donors' ability to share information on aid flows (Indicator 12 - Table not presented) and analytic work (Indicator 13).

In terms of arrangements for donor notification of disbursements, a financial calendar is in place and systems have been defined in the programme implementation manuals developed for some sectors. However, despite this, deviations from the plans remain common. Of donors who responded to the survey, 55% claim to notify the government on indicative disbursements it plans to release over at least a three-year period. Donors who answered with qualified responses included: one bilateral donor which signed an indicative five-year programme but later decided not to implement it fully; several whose programmes are new and so have not yet had the opportunity to provide such notification; some who advise on disbursements on a yearly basis; and one which claimed only to specify high-level policy directions, rather than specific project or programme disbursements.

Are diagnostic reviews being streamlined?		TABLE 5.7 INDICATOR 11
Diagnostic reviews (2001-03)	Was it undertaken jointly?	
CFAA	YES	
PER	YES	
CPAR	YES	
HIPC	YES	

Who is sharing country analytic work?				TABLE 5.8 INDICATOR 13
YES!	YES	NO	NO!	
Austria	Belgium	Greece	Finland	
Canada	United Nations	Ireland	France	
AfDB		Japan	Germany	
IMF		Sweden	Italy	
World Bank			Netherlands	
			Norway	
			United Kingdom	
			European Commission	

45% of the donors claim to provide comprehensive and regular information about in-country disbursements, with 50% claiming to do so but with a caveat. Frustration is expressed by several donors regarding the lack of a clear reporting format. Other caveats provided include the fact that timing has slipped, that reports are insufficiently comprehensive, and that information is provided on all accrued mission expenditures — not all of which relate to in-country expenditure.

The great majority of the donors reported that they do not regularly share information on their country analytic work on the country analytic Web site (Indicator 13 – Table 5.8). Several respondents drew reference to the fact that, while analytical work may not be posted on the Web site, they still shared it with the government and other donors – either through country strategy plans, the DAG, directly, or upon request. Several donors have undertaken to use the country analytic Web site in the future.

ACRONYMS

AfDB	African Development Bank
APR	Annual progress report
CFAA	Country financial accountability assessment
CIDA	Canadian International Development Agency
CPAR	Country procurement assessment report
DAG	Development Assistance Group (Ethiopia)
DFID	Department for International Development (United Kingdom)
HIPC	Heavily indebted poor countries
IMF	International Monetary Fund
MoU	Memorandum of understanding
MOFED	Ministry of Finance and Economic Development (Ethiopia)
MTEF	Medium-term expenditure framework
PEFA	Public Expenditure and Financial Accountability
PER	Public expenditure review
PSCBP	Public sector capacity building programme (Ethiopia)
SDPRP	Sustainable development and poverty reduction paper (Ethiopia)
Sida	Swedish International Development Cooperation Agency
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development