Country brief

Ethiopia

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A. Introduction and Purpose of the Brief

This paper reviews development effectiveness efforts in Ethiopia. It reflects on progress, challenges and the proposed policy responses of the Ethiopian Government and its development partners.

The purpose of this paper is to provide a succinct overview, primarily for a global audience. Its objective is to document progress and challenges in Ethiopia, sharing the country's own learning and experience in order to contribute to the international dialogue led by the Global Partnership.

B. Country Context

Ethiopia has registered broad-based-rapid economic growth that puts it as one of the fastest global growing economies in the world. Its national development strategy called the Growth and Transformation Plan (GTP) aims for structural transformation with the aim of becoming a middle income country by 2025. The major objective of the GTP is to: (i) maintain an average GDP growth rate of around 10% per annum and attain the MDGs; (ii) expand and ensure quality education and health services to achieve MDGs in the social sector; and (iii) establish suitable conditions for livelihoods through the creation of a stable democratic and developmental state within stable macro-economic framework.

Ethiopia has registered broad-based double digit growth at the rate of close to 11% for a decade. The Government's policy gives priority to pro-poor sectors. Consequently, 70% of the total expenditure goes towards education, health, agriculture, water supply and rural roads. Due to the tightened fiscal policy starting in 2011/12, the budget deficit was less than 2%, largely financed from external sources.

Generally, the progresses in the social sector show that Ethiopia is set to achieve most of the MDGs. However, additional effort is required to advance and accelerate progress to achieve MDG 3-Gender Equality and Women's Empowerment and MDG 5-Improve Maternal Health where progress is less satisfactory. In the social sector, improving the quality of services and addressing access problems in some pocket areas (emerging regions) remains a challenge and the focus areas for the next GTP period.

Some challenges of the GTP includes low implementation capacity, affecting project and service delivery; low gross domestic savings, which, though growing, are not to the level required to meet the huge investment needs of the economy; and weak export performance partly due to global market price fluctuation leading to growing trade deficit; and finally inflation pressure, threatening macroeconomic stability, though reduced to single digit through fiscal and monetary policy measures.

Overall, the progress in implementation of the GTP has been a positive one and future transformation will consider moving from an economy based on agriculture to one based on industry and light manufacturing.

C. Development cooperation and partnership framework

Since 2005 (EFY 1998), when development partners suspended their general budget support following the national election and the ensuing unrest, much of Ethiopia's development assistance comes from large pooled fund arrangements that support the Government's vision to meet all the MDGs and become a middle-income country by 2025.

In 2012, Ethiopia received USD 3.3 billion in development assistance (including USD 435 million in humanitarian aid), a decrease of 6 percent compared to 2011. While the overall volume of aid to Ethiopia remains significant, Ethiopia's aid of USD 36 per capita remains below the sub-Saharan average of USD 50 per capita. Grants decreased by over 10% to make up 77% of ODA in Ethiopia, while concessional (soft) loans increased by 18% and constitute 23% of total ODA to Ethiopia.

There are 22 bilateral and 24 multilateral organizations that support Ethiopia's development. In 2012, the top five providers of official development assistance (considering only resources from core contributions for multilateral organizations) were the World Bank's IDA (US$751 million); the United States (US$733 million); the United Kingdom (US$422 million); the European Union (US$239 million); and Canada (US$123 million).

Among bilateral and multilateral development partners in 2012, investments in health and population policies account for close to one-quarter (23%) of total development assistance, followed by humanitarian assistance (15%). Economic infrastructure (13%); multi-sector aid (11%); education (8%); developmental food aid (8%); agriculture (5%); other social infrastructure (5%); water and sanitation (5%); government and civil society (4%); and other (4%) round out the remaining sectoral distribution.

A few of the largest multi-donor programmes (pooled funds) currently in place include the Promotion of Basic Services Program (PBS); the Productive Safety Net Program (PSNP); the General Education Quality Improvement Program (GEQIP); the Agricultural Growth Program (AGP); and the Sustainable Land Management Program (SLMP). Together contributions from development partners to these five large programmes account for over one-quarter of official development assistance, or $806 million per year.

Projects	**2012**	**2013**	**2014**
AGP	51,538,983	51,538,983	51,538,983
GEQIP	65,751,724	65,751,724	103,040,700
PSNP	299,304,348	299,304,348	299,304,348
PBS	332,185,161	332,185,161	332,185,161
SLMP			19,801,875
Total	**748,780,216**	**748,780,216**	**805,871,067**
% ODA	**23%**	**24%**	**27%**
ODA*	3,303,000,000	3,137,850,000	2,980,957,500

Note: ODA for 2013 and 2014 are estimates based on past years' rates of progression.
Sources: Based on World Bank Project Appraisal Documents and DAC Aggregates and CPA data, OECD, Paris, 2014.

The Development Assistance Group (DAG) holds regular dialogues with the Government of Ethiopia through the annual progress review meetings of the Growth and Transformation Plan and the High Level Forum (HLF). In addition, Government convenes the Effective Development Cooperation Task Force to further promote adherence to the development effectiveness agenda in Ethiopia.

The Development Assistance Group (DAG) comprises 27 bilateral and multilateral development partners that provides development assistance to Ethiopia. The DAG coordination architecture consists of technical working groups; donor-government sector working groups and donor working groups. Annex A illustrates the aid coordination landscape. The technical working groups that operate directly under the umbrella of the DAG include:

i) GTP Working Group, which consists of Monitoring and Evaluation, Macro-economic and Public Financial Management sub-groups;

ii) Governance Technical Working Group which consists of Civil Society and the Justice, safety and conflict sub-group;

iii) Donor Group on Gender Equality (DGGE)

iv) Private Sector Development and Trade Working Group.

Some so-called technical working groups have evolved into sector working groups co-chaired by both Government and development partners. For example, the Private Sector Development and Trade Working Group is co-chaired by the Ministry of Industry and the Macroeconomic Discussion Forum is co-chaired by the Ministry of Finance and Economic Development. In addition to the four aforementioned groups, ten sector working groups fall under the auspices of the Government's Effective Development Cooperation Task Force, chaired by MoFED.

The overarching DAG structure comprises all Heads of Agency members of the DAG, and is currently chaired by the World Bank and USAID. The nine-member DAG Executive Committee sets the agenda for DAG meetings and has the mandate to make some decisions on behalf of the DAG. The overall architecture of the aid coordination mechanisms can be found in Annex A.

D. Progress in Effective Development Cooperation

The adoption of the Busan Partnership for Effective Development Cooperation at the 4th High Level Forum on Aid Effectiveness has taken the global partnership agenda to a whole new level. By recognizing the new challenges and opportunities in the world and gaps in previous aid effectiveness pronouncements, the Busan Partnership agreement came up with a new partnership frame that is broader, result oriented and more inclusive than before. It is also founded on shared principles, common goals and stronger commitments for effective international development.

The Mexico High Level Communique agreed on 16 April 2014 builds on the Busan outcome and recognizes the progress made in upholding the Busan principles of country ownership, focus on results, inclusiveness, transparency and mutual accountability, while conceding that much more effort is required to fully implement these commitments. Special emphasis is placed on domestic resource mobilization; middle-income countries; south-south, triangular cooperation and knowledge sharing; and business as a partner in development. As many as 38 voluntary initiatives were annexed to the Communique.

Through the development effectiveness taskforce and other dialogue platforms like the annual review of the GTP and the High-Level Forum, the Ministry of Finance and Economic Development (MoFED) and the DAG have continued their efforts to implement the Paris/Busan principles for aid effectiveness. Ongoing activities are in place to make the public finance system efficient and to create conducive environment for development cooperation were further strengthened.

This section examines the results from the 2013 post-Busan monitoring survey in Ethiopia, contextualizing it with the aggregate results for the 46 countries participating in the monitoring exercise. In Ethiopia, data collected captured 82% of official development assistance (ODA) in EFY 2004 (July 2011 - June 2012). At the country-level, 24 development partners participated in the monitoring exercise, including 14 bilateral agencies, 7 UN agencies, and 3 development banks/funds.

Annual predictability, the 2013 monitoring survey results show a certain steadiness in Ethiopia since 2010 (89%). The indicator relates to the proportion of scheduled disbursements that were actually disbursed. Seven DPs disbursed 100% of what they scheduled for disbursement (African Development Bank, Australia, Germany, Ireland, Italy, UK, World Bank), whereas 8 others did not indicate any scheduled disbursements despite disbursing ODA (Canada, Czech, GEF, Global Fund, Kuwait, Saudi Arabia, Sweden, United States) for the year under review. While unpredictability is typically associated with shortfalls in funding, it is not uncommon for funding to exceed scheduled disbursements. The global average for this indicator is 82%. Ethiopia is above average.

Medium-term predictability was a new indicator in 2013. The indicator refers to the estimated proportion of total funding covered by spending plans covering the next three years, which was 85% for Ethiopia. Results vary widely among DPs with 13 able to provide these plans for all of the 3 years in the future (Austria, Canada, Czech Republic, France, Germany, Ireland, Kuwait, Saudi Arabia, Spain, United Kingdom, United Nations, United States, and World Bank). Often, the determination of medium-term predictability was based on the existence of cooperative agreements signed with Government. The global average for this indicator is 70%. Ethiopia is above average.

Aid on budget examines the proportion of scheduled disbursements actually recorded on budget (and approved by Parliament). It would appear that progress has been made in Ethiopia since 2010, when only 49% of aid was recorded in Government's annual budget to the latest round of monitoring which was 66%. Again, there was wide variation among DPs, where 0% of 11 DPs' ODA is recorded on the government budget (Australia, Canada, Czech Republic, GEF, Global Fund, Kuwait, Nordic Development Fund, OFID, Saudi Arabia, Sweden, United States), and 3 others where 100% features on the budget approved by the House of People's Representatives (Finland, Italy, Norway). The global average for this indicator is 63%. Ethiopia is above average. As in 2010, Ethiopia meets the requirement on mutual accountability by having country-level targets, assessments toward targets, the involvement of non-executive stakeholders, and public results.

Gender equality and women's empowerment Ethiopia is mentioned in the monitoring report as one of the few countries that has a system in place to track and make public allocations on gender equality. Specifically cited are its national gender-responsive budgeting guidelines for mainstreaming gender in the program budget process. Where further progress could be made is in systematically tracking allocations for gender equality and women's empowerment.

Quality of the country's public financial management systems this is based on the World Bank's Country Policy and Institutional Assessments Criteria 13 (Quality of Budgetary and Financial Management). Ethiopia here scores the same as it did in 2010 (3.5 on a scale of 1-low to 6-high). There was discussion on the use of this indicator to measure the quality of systems in place, which many countries disapprove of – this was raised in Abidjan in February – and is also reflected in the footnote of the monitoring report: "CPIA ratings have not been validated by countries, and it should be noted that some countries have expressed reservations on the result and the methodology used for the World Bank CPIA assessment.

Use of country PFM and procurement systems are concerned, Ethiopia has not shown any progress and even registers an overall decrease in the four elements measured by this indicator: national budget execution; financial reporting; national auditing; and use of national procurement systems. An average of 51% of total ODA used the country's PFM and procurement systems compared to 56% in 2010. There may be a couple reasons for this. As agreed at the data validation workshop when some DPs disputed the data derived from the work of a consultant in 2012, the data used in the latest round of monitoring should be seen as a baseline against which further progress will be measured. Further, for various reasons, the use of country systems is beyond the control of the development partner. For example, the Government itself sometimes requests that DPs not use their systems, which may be time-consuming. For this reason, unpacking the different reasons behind the low usage rate would be important to better understand the context and also to show ways in which DPs can support an improvement in the quality of national systems. The overall use of country public financial management and procurement systems has remained at its 2010 level. The global average for this indicator is 49%. Ethiopia is above average.

Untied aid: The share of untied aid in Ethiopia as reported to the DAC in 2012 was 87% compared to 70% in 2010. “Traditional” providers of development assistance are delivering on commitments to untie more ODA despite pressures on ODA budgets.

E. Development Effectiveness Agenda

In preparation for the second Growth and Transformation Plan (2015-2020), the Development Assistance Group is supporting the National Planning Commission to refine the indicators to monitor the five-year plan. Clusters of sector specialists are in the process of drafting sector plans, which will then serve as a basis for the drafting of the second generation GTP. Government will hold regional and national consultations with all stakeholders, including development partners.

In light of the monitoring results, an action plan has been put in place for development partners and Government to measure progress and hold each other accountable. The post-Busan action plan was designed by the Effective Development Cooperation Taskforce and will be regularly monitored.

Table 1. Action Plan for Effective Development Cooperation in Ethiopia

AID PREDICTABILITY
1.1. Ensure AMP is upgraded, populated with actual and planned disbursements and useful to partners and GoE alike.
1.2. Submit 3-year rolling spending plans to the government Before August 31.
1.3. Provide GoE with annual disbursement plans ahead of time, according to EFY by August 31.
1.4. Decide and develop clearer guidance on donor reporting to ensure that bilateral disbursement to multi-donor trust fund is recognized in the AMP upgrade.
1.5. Develop a medium-term country program that aligns with the GTP; adjust policies and procedures as necessary so that medium-term disbursement plans can be regularly updated and communicated to GoE and other stakeholders.
AID ON BUDGET
2.1. Improve aid on budget figures and submit disbursement plans by August 31 in order to ensure that it is reflected on the Federal budget proclamation
2.2. In the context of annual work plan discussions, determine how much development cooperation is included on budget for resources that donors can provide a guarantee that they will disburse.
MUTUAL ACCOUNTABILITY
3.1a. Agree with each partner to improve on their current use of the country's procurement and PFM systems. 3.1b. GoE to continue improving the quality of its procurement and PFM systems.

3.2.a. Strengthen Private Sector and CSO engagement based on recommendations from CSSWG and the PSDT SWG. 3.2.b. Assess the performance of existing sector working groups and based on the findings recommend how to improve their performance.
GENDER EQUALITY AND WOMEN EMPOWERMENT
4.1. Discuss with Women's Affairs Directorate to assess how partners can support the implementation of gender responsive budgeting guidelines in Ethiopia.
4.2. Consider further support to design, implement, and systematically track allocations for gender equality and women's empowerment.
QUALITY OF COUNTRY SYSTEMS
5.1. Collaborate with DPs and MoFED to improve Ethiopia's CPIA scores
5.2. Initiate dialogue between Government and development partners to look for alternate measures to imporve the quality of the country systems, drawing lessons from the Effective Institutions Platform and the Collaborative Africa Budget Reform Initiative (CABRI).
5.3. Government to conduct continuous capacity assessment of its procurement personnel and continue to improve their professionalism.
5.4. The recent PEFA exercise provides a basis for partners and Government to discuss the quality of financial management and procurement systems at federal and regional levels, decide actions to support improved systems, and adopt schedules to increase their use of the country's systems.
USE OF COUNTRY SYSTEMS
6.1. Improved use of Ethiopia's public financial management and procurement systems to be systematically included in partner-Government dialogues regarding annual work plans and longer-term cooperation agreements.
6.2. DAG members should set individual targets to increase the use of country systems and develop action plans to achieve these targets.
USE OF COMMON RESULTS FRAMEWORK
7.1a. Identify common results frameworks for the next Growth and Transformation Plan. 7.1b. Move away from small-scale project funding towards a broader sector-wide approach, replicating the good lessons and experiences from PBS and PSNP.
PUBLIC-PRIVATE DIALOGUE
8.1. Continue discussions among MoFED, DAG, chambers of commerce and the private sector working group, which constitute an entry point through which to implement broader and more ambitious development co-operation programmes focused on improving the investment climate and associated reforms.

F. The Global Partnership and its contribution to the development effectiveness agenda at country level

Partnering for Effective Taxation and Domestic Resource Mobilisation for Development

The adoption of a prudent fiscal policy, and improvements in tax administration and tax collection systems have led to the decline in government budget deficit during the past three years. (GTP APR, 2004). In 2010/11 and 2011/12, a total of 59 billion and 85.7 billion birr of tax revenue has been collected respectively. This indicates that tax revenue has increased by 36.2 percent and 44.7 percent in 2010/11 and 2011/12 respectively compared to the tax revenue collected in the preceding years. The 2011/12 tax revenue is in fact almost double the amount collected in 2009/10, which was only 43.3 billion birr.

Although tax revenue has increased over the last two years, it still remains low compared to the tax revenue generating capacity of the economy, the financing requirements of the development programs and the average performances of sub-Saharan countries. To further boost the domestic resource generation capacity of the government to finance the wide development finance need of the country, promoting compliance and equipping tax collection institutions with adequate enforcement power which will further boost revenue mobilization at federal and regional levels will be critical. Fighting illicit financial flow is also another critical area for Ethiopia. According to the Global Financial Integrity Ethiopia stood 39th out 144 countries in terms of the volume of illicit financial flow with over USD 20 billion making its way out of the country between 2002 and 2011. This amounts to an average of USD 2 billion per annum.

South-South, Triangular co-operation and Knowledge Sharing

Ethiopia the positive impact of these valuable demand-driven cooperation efforts and encourage their broadening and strengthening, in partnership with all development stakeholders, while recognizing that North-South cooperation is still the mainstream of international development cooperation and that South-South cooperation is not a substitute but rather a complement to North-South cooperation. In this context, Ethiopia welcomes the initiatives undertaken by southern partners to deepen the understanding of the nature and modalities of South-South cooperation and the ways and means to enhance its developmental impact as well as its potential synergies with the efforts of other development cooperation partners and modalities. (Para. 27 of the Draft Communique)

Development cooperation with southern partners has been a cornerstone of Ethiopia's unprecedented decade- long double digit economic growth success and it will continue to play an important role in the country's future development endeavors. The advantages of South-South cooperation includes stronger ownership of the development process by Ethiopia; sharing of technology and best practices that may be more appropriate to the needs of Ethiopia; and encouraging self-reliance by identifying local solutions based on the experience of developing countries.

In September 2014, the Brazilian Ministry of Foreign Affairs and its technical cooperation department (ABC) invited a delegation from Ethiopia composed of 16 water and sanitation officials from sector line ministries and regional bureaus to Brazil. The delegation was led by the State Minister of Health and Water, and also included senior government officials from the Ministry of Urban Development, Construction and Housing; the Ministry of Health; and the Ministry of Water, Irrigation and Energy. The federal level delegates were accompanied by Water Bureau leaders from Tigray, Amhara, Oromia and Somali regions, as well partners such as World Vision (NGO), DFID and UNICEF. The "South to South" learning visit was one of the preliminary activities financed under the One WASH Programme. The delegation held senior level consultations in the presence of the Ethiopian Ambassador to Brazil with the Ministry of Foreign Affairs, Ministry of Cities, Ministry of Health (FUNASA), Ministry of Integration, Ministry of Environment and National Department of Water in Brasilia.

Ethiopia is eager to explore ways and means to support soft transitions of countries from a lower-income to a higher-income category in order to ensure that eventual adjustments on concessional regimes and other development cooperation instruments do not hamper the development gains achieved by these countries. The new framework will be vital for the country not only because of its current partnerships with MICs but also the It is going to apply to Ethiopia if the country realize its vision of becoming a low carbon emission middle income country by 2025.

Business as a partner in development

Ethiopia welcomes the efforts made to strengthen and to put in place platforms and hubs for inclusive and structured multi-stakeholder dialogue on the broad range of public-private partnerships, including trade unions and civil society organizations, with the aim of improving the alignment of business and development core objectives through the enhancement of shared value delivery along the breadth of the value chain, sustainable consumption and production patterns, and corporate social and environmental responsibility. The country looks forward to learning from the results and development impact of these efforts and to working together in their follow-up.

Economic transformation at the center of its development plans, the government of Ethiopia continued to strengthen the peace and stability, guarantee property rights, and ensure macroeconomic stability with prudent fiscal discipline, exchange rate and interest rate policies for the development of private sector. The investments in infrastructure and human resource development continued to expand in order to make the domestic market more profitable for investment and hence crowd in private investment.

The investment code has been revised to further improve further the investment incentives particularly to priority sectors. Trade and credit policy incentives, better facilitation in licensing, registration, customs and taxation, as well as the allocation of land (industrial zone development) for manufacturing and agriculture investments serve to encourage private sector development. The participation of the private sector in the economy is growing, and will increase to accelerate economic growth of the country (GTP APR 2004). These activities linked to industrialization and commodity diversification also contribute towards Ethiopia's structural transformation.

G. Conclusions and recommendations

Ethiopia's rapid economic growth and progress in poverty reduction, as well as significant achievements in attaining most of the Millennium Development Goal targets is a testament to the leadership of the Government. To ensure that this progress is consolidated and that future challenges are met there needs to be a continued focus on effective implementation of development strategies and partnerships with development partners, civil society and the private sector, in line with the action plan agreed.

H. References

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Annex A. Aid coordination architecture in Ethiopia