



Co-operation between

The European Union

and

The Federal Democratic Republic
of Ethiopia

Draft Joint Annual Report

2007

**Annual Report on the Implementation of the ACP-EU
Conventions and other Co-operation Activities**

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Joint Annual Report 2007

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Joint Annual Report 2007

1. Summary

Positive Evolution of Political, Governance and Economic Dialogue

Developments in 2007 reflect a positive evolution in relations between the Government of Ethiopia, its donor coalition, the EU and Non-State Actors. As to the EU, political relations with Ethiopia continued to improve in the year: in two Article 8 Political Dialogues, issues of economic development, democratization, human rights, and regional security were discussed in a frank and open manner. Importantly, a consensus was reached on the inclusion of migration in the agenda of future Dialogues. The insurgency in Ethiopia's Ogaden region as well as Ethiopia's military engagement in Somalia were also discussed. An EU Troika mission visited the Ogaden region in November 2007 and submitted its recommendations to the Government

The continuation of the donors' dialogue with the Government on governance within the framework of PASDEP was a positive step as well. So was the restoration of the dialogue on economic and external financing issues, inter alia through a restart in June 2007 of meetings of the High Level Forum. The latter was facilitated by an EC-prepared study on the "Financing of PASDEP and the Scaling up of Aid". The Government's dialogue with the IMF was also revitalized and became more effective in 2007 through Article IV consultations and a productive follow-up policy discussion by the end of the year.

In 2007, the preparation of the Joint Annual Review 2006 and the articulation of the CSP for the 10th EDF provided opportunities for Government/EC consultations with NSAs. In several consultative forums organized by the Government, the Commission and Non-State Actors, NSAs enriched the documents through their timely contributions and by providing substantive comments. NSAs also contributed to discussions on the National Transport Strategy and the Productive Safety Net.

Economic Performance and Poverty Reduction

In 2007 Ethiopia continued on an impressive growth path that is helping to reduce poverty. Economic growth in 2006/7 of 11 %, while helped by favorable weather which led to record cereal crops, was the result of 5 years of impressive increases in public investment, mostly to reduce the country's infrastructure gap and to boost social sector service delivery. Large rises in exports of goods and services and a modicum of foreign private investment also helped to boost growth. Ethiopia's annual average growth of 11% of the past five years substantially exceeded the Government's target of 7%, and made Ethiopia the fastest growing non-oil producing economy of Africa. Private investment continued its upward trend, reflecting breakthroughs in horticulture, tourism, construction, contracting and services.

The financing of imports associated with Ethiopia's high growth strategy, including the virtual four-fold increase in the cost of fuel imports, was facilitated by rising external assistance, debt relief and private remittances. In 2007 the Government took policy action to mitigate the inflationary impact of high growth, aiming to bring inflation down from 18% to single-digit rates. Inflation abated by year-end but rising agricultural prices continued to cause concern.

Public Finance and Aid Management

Over the years the quality of public finance management in Ethiopia has risen significantly, as attested by Ethiopia's first PEFA Report that was finalised in October 2007. Ethiopia's PEFA scores are in the aggregate well above the average of those of other countries.

Poverty Reduction and its Prospects

Programmes for reaching MDGs have come to the half-way point and Ethiopia can point to a significant reduction in monetary and non-monetary poverty. Yet, in 2005 per capita income stood at US \$155 only, life expectancy at 51 years and the adult literacy rate was 36%. The progress in the human condition demonstrates the ability of the Government, donors and CSOs to scale up social sector service delivery, with positive results in health, education, water supply and sanitation. An important result is that population growth fell from 3% in 1995 to 2.5% by 2005; a remarkable development was that fertility in Addis Ababa fell below replacement level.

Donor support for poverty-reducing programmes was facilitated by the Government's launching of sector development programmes as well as by the Productive Safety Net Programme (PSNP) and the Protection of Basic Services Programme (PBS). The positive results of these programmes – all of them supported by the EC - indicate that external assistance rather than absorptive capacity has become the dominant constraint to scaling up poverty reduction programmes. At the June 2007 HLF Meeting the conclusion was reached that if external assistance prospects for the remaining half of the MDG period were not strengthened, the reaching of MDG goals would be put in jeopardy.

Positive Evolution of Government/EC collaboration

In 2007 the collaboration between the EC and the NAO Office was significantly strengthened. This enabled the commitment of all 9th EDF and previous EDFs' indicative country allocations through releasing funds from old commitments before the set expiry date—30 April 2007. On top of that, agreement on the End-of-Term Review was reached and the document was signed well ahead of time. In addition, the preparation of the JAR 2006 and CSP documents was accomplished in a timely and very participatory manner.

Overall Resource Transfer Highly Encouraging

Aggregate disbursements under the EDF and EC Budget Lines showed a sharp uptrend and rose from €122 million in 2005 to €215 million in 2007. When EIB disbursements are added, the total of EDF, Budget Lines and EIB reached €245 million in 2007, nearly double the level of 2005.

Advances in Programme Design, Implementation and Preparation.

High points in Government/EC co-operation include decisive progress in scaling up programmes for direct poverty reduction: several instruments demonstrated their robustness in reaching large numbers of the poor through innovative sector programmes for social sector services delivery. One was the multi-donor financed PBS; the other one the PSNP under which 7.2 million chronically food-insecure people received grants. In 2007 there was also demonstrable progress in scaling up programmes for reducing the infrastructure deficit, through ERA's Roads Sector Policy Support Programme as well through rural infrastructure provision under the PSNP. Advances were also made in providing financial and technical assistance support to NSAs through the Civil Society Fund while, at the same time, NSAs were brought into the review of several sector programmes. Progress was also made in developing EC support for governance strengthening.

Issues and Challenges

The Government and the EC are committed maintaining the encouraging pace of EC/Government co-operation under the 10th EDF. Much of the basis for that was laid in 2007, inter alia through preparatory work towards early follow-up operations in PBS, the PSNP and the Road Sector Policy Support Programme (SPSP). This will not only ensure strong EC contributions to poverty reduction and infrastructure provision but will also help the Government maintain its economic

growth agenda through larger resource transfers and capacity building for external trade acceleration. EC support for the multi-donor Democratic Institutions Programmes can help with implementation of the Government's governance reform agenda.

2.1 Political, Economic and Social Situation

2.1.1 Update on the Political Situation

Political relations with Ethiopia continued to improve in 2007. Two Article 8 Political Dialogues covered economic developments, democratisation, human rights, and regional issues. Discussions were initiated on a possible participation by NSAs in the Article 8 dialogue. A first EU Migration Mission in November 2007 discussed migration issues with the Government, of which the outcome was the inclusion of migration in the Article 8 Dialogue and the establishment of a migration "co-operation platform" in Ethiopia.

The trial of leaders of the main opposition party (the CUD), representatives of civil society and the media ended in 2007. The opposition leaders were declared guilty of charges, but they were pardoned by the President. Most publishing houses were also found guilty and were obliged to close their businesses. This raised concern about freedom of expression in the country. The EU Trial Observer submitted his report to EU Heads of Mission on 28 December 2007 to help them judge whether the trial had been fair, speedy, and transparent.

The Government prepared a new press law in 2007 which a Committee of Parliament finalized by year-end for consideration by Parliament. Preparations for local elections – rescheduled until April 2008 - started in full in 2007. The National Electoral Board of Ethiopia (NEBE) established 22 offices in the country. The Government took a decision to allow domestic but not international observers. Several opposition parties complained about the forced closing of some of their offices, their limited access to the media and arrests of their members. NEBE's delay in recognising local organisations to carry out civic and voter education was noted with concern.

Government's Policy Dialogue with Donors

The continuation of the governance dialogue with the Government within the framework of PASDEP has been a positive step. Discussions were started on adjustments to institutional mechanisms for monitoring governance performance by bringing civil society into the dialogue, inter alia to facilitate discussion of newly-prepared legislation for civil society. A positive development was also the restoration of the donors' dialogue with the Government on economic and external financing issues through a restart of meetings of the High Level Forum (HLF) of donors and the Government in June 2007. The latter was facilitated by an EC-prepared study on the financing of PASDEP which served as the basic document for the meeting. The Government's "non-programme" dialogue with the IMF was also revitalised in 2007 through an Article IV consultation and a responsive follow-up policy surveillance engagement.

Security Concerns

The insurgency in the Ogaden region within Ethiopia, as well as Ethiopia's military engagement in neighbouring Somalia, dominated the security situation in 2007. An EU Troika mission visited the Ogaden region in November 2007 and submitted recommendations to the Government. The prospect for Ethiopia withdrawing its troops from Somalia hinges on the deployment of an African Union peace-keeping force. Ethiopia's relations with Eritrea continued to be tense although Prime Minister Meles called for constructive dialogue.

2.1.2 Update on the Economic Situation

In 2007 Ethiopia continued on an impressive growth path that is helping to reduce poverty. New data suggest that at 11.1%, Ethiopia's growth surpassed expectations in 2006/7 and continued to become more broadly-based. "Modern" sectors as horticulture, tourism and several industrial sub-sectors participated increasingly in the country's growth process.

Table 1: Growth in Constant GDP - 2003/04-2007/08 (Percentage)

GDP/Sectors	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	Est 2007/ 2008
GDP at Constant Market Prices	13.6	11.8	10.9	11.1	10.8
Agriculture	17.0	13.5	10.9	9.4	7.5
Of which Crop Production	25.6	19.5	15.0	11.0	
Manufacturing	6.6	12.8	10.6	10.5	12.0
Hotels and Restaurants	6.2	11.6	19.5	25.1	
Services	6.3	12.8	13.4	13.5	14.0

Source: Ministry of Finance and Economic Development (MoFED) – GDP Data Online

High growth in 2006/7, helped by good weather, followed on from 5 years of impressive increases in public investment spending, mostly to reduce the country's infrastructure gap and to boost social sector service delivery. Large rises in exports of goods and services and a modicum of foreign private investment also helped to boost growth. Over the past five years economic growth in Ethiopia reached an average of somewhat over 11%, substantially exceeding the Government's target of 7% under PASDEP, and making Ethiopia the fastest growing non-oil producing economy of Sub-Saharan Africa. Private investment continued its upward trend with breakthroughs in horticulture, tourism, health and services.

External Financing

The financing of imports associated with Ethiopia's high growth strategy, as well as the coverage of the virtual four-fold increase in the cost of fuel imports (reaching over US \$1 billion in 2007, up from US \$460 million in 2004), was over the past five years facilitated by a 150% rise in external assistance, debt relief and by the inflow of private transfers. This diversification of foreign exchange earnings reduced Ethiopia's external financial vulnerability.

Table 2: External Finance Earnings 2003/4 to 2007/8 (US \$ Million)

Item	2003/4	2004/5	2005/6	2006/7	Est 2007/8
Exports of Goods	600	847	1000	1185	1451
Exports of NFS	894	1011	1105	1301	1600
Private Transfers	771	1023	1229	1686	1950
Official Transfers	567	750	866	1199	1390 ¹
Foreign Direct Investment (Net)	150	150	365	482	526
Total	2982	3781	4565	5853	6917

Source: International Monetary Fund (IMF) – Aide Memoire – IMF Staff Visit, November 2007

While remaining low at a little over 2 months of imports, Ethiopia's reserves of foreign exchange increased by over US \$200 million in 2006/7. Thus, the Government concentrated its policy action on mitigating the inflationary impact of high growth, attempting to bring inflation down from 18% in September 2007 to single-digit rates. While non-food inflation abated towards end-2007 – inter alia the result of more restrictive monetary and fiscal policies – in its consultations with the Government the IMF encouraged the Government to act further if inflation did not subside to single-digit levels. It was recognised that there was need for further study to determine

¹ The IMF estimates official transfers in 2007/8 at US \$1.9 billion – see Aide Memoire – IMF Staff Visit, Nov. 2007.

the causes of those food prices increases which coincided with the availability of bumper food crops.

Public Finance Management

Over the years the quality of Public Finance Management (PFM) in Ethiopia has increased significantly, as attested by Ethiopia's first PEFA Report that was finalised in October 2007². This positive record of PFM reform has been supported by the Government's Expenditure Management and Control Programme (EMCP) which is now part of PSCAP, a US \$400 million multi-donor-supported capacity building programme for Ethiopia's public sector. PEFA performance Indicators are attached as Annex 3.a.4. Ethiopia's PEFA scores are in the aggregate well above the average of other countries' PEFA exercises.

The PEFA report signals that aggregate fiscal discipline is well ensured by the ability of the Federal Government to adequately forecast primary expenditures and revenues and to keep expenditure arrears under control. But it also brings out the issue of a relatively high amount of extra-budgetary expenditures. As regards the strategic allocation of resources in accord with the priorities of public policy, the report points to significant changes in the original composition of primary expenditures of budget entities at the Federal level, thereby reducing efficiency in the allocation of resources. Lastly, the report brings out that efficiency in service delivery was weakened by the "ineffective predictability in the availability of funds for commitment of expenditures". Inadequate donor practices were seen to have contributed to this problem. A Joint Government-Donor Task Force was set up to elaborate a PFM Strengthening Action Plan.

As regards fiscal developments in 2007, several revenue measures were taken to reverse the downward trend in the tax/GDP ratio³, raising the latter from 10.2% of GDP in 2006 to 11.8% in 2007. This made it possible to increase poverty-reducing spending further from 4.6% to 5% of GDP in FY 2007/8, while keeping the defence spending /GDP ratio down to 1.7, despite an increased international security threat. The fiscal deficit (after grants) rose slightly beyond the red line of 3% of GDP in 2006/7, but measures under the Budget for 2007/08 aim at reducing it to 2.5% or less. This should help with inflation reduction, while a cautious approach to expanding investment should keep capital goods imports within the limits of foreign exchange availability.

Macro-Economic Policy Dialogue and Sector Studies

Managing high growth for poverty reduction while maintaining internal and external financial viability was a key theme in the IMF discussions with the Government. These discussions attest to a welcome resumption of the policy dialogue between the Government and the donor community in which the IMF plays a lead role, as recommended in the High-Level Forum of June 2007. The latter took place on the basis of a well-received EC study on the "Financing of PASDEP and the Scaling up of Aid" which led the DAG and the Government to agree on restructuring the macro-economic policy dialogue and to use subsequent High-Level Forum (HLF) meetings to tackle key sector issues as private sector growth, rural development and governance.

The economic policy interaction between donors and the Government of 2007 illustrates the putting into effect by the Government of key HLF recommendations which places the IMF in a lead position for the macro-dialogue with the Government in the context of an effective "non-programme" relationship in which the IMF consults with DAG members on a monthly basis. The

² In 2007 a PEFA exercise was also completed for Ethiopia's Regional Governments.

³ It appears hard to tax growing incomes in the agricultural sector (about one-half of GDP) while new dynamic industry and services sector benefit from tax exemptions.

HLF recommendation that the economic growth agenda be more systematically developed by the Government and donors found expression in dialogue on rural development and growth issues which took place in November 2007.

Studies that were completed in 2007 highlight the need for the Government and donors to more effectively address issues in the demographic area and in employment generation. A joint World Bank/Government study of Ethiopia's tourism sector study identified its potential for high growth. Lastly, an EC-financed study led to a National Transportation Strategy and a National Transportation Master Plan for the coming 20 years. These studies should be of use to both the Government and donors in their evaluation of PASDEP implementation, of which the first Annual Performance Review was completed in late 2007⁴.

External Trade and Regional Integration

In 2007, as over the past five years, Ethiopia's economy increasingly opened up to trade opportunities with the rest of the world. In this period, the export value of goods and non-factor services doubled, against a GDP rise of some 50%. Imports also doubled in this period, most of the increase coming from petroleum product imports and of capital goods, the latter closely related to the Government's investment programme. Since Ethiopia submitted its Memorandum of the Foreign Trade Regime to the Secretariat of the World Trade Organisation (WTO) in December 2006 the Government has been engaged in the process of Questions and Answers, touching on the results of impact assessment studies for liberalisation of the financial services and telecommunications which were carried out in 2007⁵. As for an Economic Partnership Agreement (EPA), Ethiopia continues to pursue an EPA agreement linking trade and development within a regional framework that fits Ethiopia's trade context.

2.1.3. Update on the Poverty and Social Situation

By any measure, most Ethiopians continue to live under very harsh conditions. To illustrate, in 2005 Ethiopia ranked among the bottom ten countries on the UNDP's Human Development Index. In that year per capita income stood at US \$155 only, life expectancy at 51 years and the adult literacy rate was 36%. Yet, when stock is taken today, with Ethiopia having reached the half-way point of its programmes for reaching its Millennium Development Goals (MDGs), it is possible to point to significant improvement in Ethiopia's human development performance since 2000/2001. The Table of Indicators for the Millennium Development Goals attests to this:

Table 3: Indicators for the Millennium Development Goals (MDGs)

Indicators	2000/ 2001	2004/ 2005	2005/ 2006	GoE Target 2009/10	MDG 2015/6
1. % of Population below Poverty Line	42	34	34	29	21
2. Prevalence of underweight children (under – five years)	57		47		30
3. Infant mortality rate			77	45	
4. Net enrolment ratio in primary education (%)	29		37		
5. Primary Completion Rate (%)	25		40	63	100
6. Ratio of girls to boys in Primary Education:		80	84	97	100
7. % of births attended by skilled medical personnel (%)	9		11	32	75
8. % of 1 year old children receiving DPT3	38	61		80	100
9. HIV prevalence 15-24 year old pregnant women (%)	8	10		8.6	
10. % of population with access to improved water source	28		36		50

Source (s): PASDEP MoFED, MDG Needs Assessment 2005, Demographic Health Survey 2005

⁴ The World Bank and IMF also completed in 2007 their first Joint Staff Assessment of PASDEP.

⁵ Ethiopia's WTO Roadmap foresees full membership by 2012.

The progress in the human condition that has been achieved over the past five years demonstrates the ability of the Government, CSOs and official donors to scale up social sector service delivery, with positive results in health, reproductive health, education, water supply and sanitation. Importantly, as brought out in 2007 in a seminal joint World Bank/Government study⁶, progress in education, health and reproductive health service delivery as well as in the availability of contraceptives, brought Ethiopia's annual population growth rate down from 3% in 1995 to 2.5% by 2005, a rate of decline slightly faster than in other Sub-Saharan countries. Significantly, in 2006 fertility in Addis Ababa was estimated at 2.1 children per woman, below replacement level. The mobilisation of rapidly-rising donor support for human development programmes was facilitated by the Government's launching of sector development programmes as well as by the introduction of such multi-donor supported programmes as the PSNP and PBS. The generally positive implementation record of several of these programmes – all of them supported by the EC – indicate that absorptive capacity limitations are no longer the dominant constraint standing in the way of scaling up direct poverty reduction programmes. Several programme reviews in 2007 illustrate this encouraging development.

Under the PBS programme donors have demonstrated successful means of contributing to government implementation of plans to expand people's access to basic services in a decentralised manner. Notable results include⁷:

- 2.6 million more children are in primary school compared with two years ago, and the net enrolment in primary grades 1-4 reached almost 80%;
- the number of trained health extension workers reached 17 600, up from only 2 800 two years ago, greatly increasing access to primary health services;
- 18.2 million insecticide treated nets were distributed, reaching 91% of households in Malaria-affected areas, thereby reducing new malaria cases by 53% in two years;
- 46% of the rural population has access to drinking water, up from 35% 2 years ago.

The PSNP that went into its third year in 2007 is becoming a robust programme for protecting and addressing the development needs of Ethiopia's chronically food insecure people. It has proven to be an effective means of moving away from the emergency food aid system which was largely seen to be of limited transparency and accountability. Despite capacity constraints at the local level, it was possible in 2007 to reach 7.2 million people who qualified under the programme, by providing predictable and timely food and cash transfers. A positive development in 2007 has been that the number of people requiring assistance (involving both emergency aid and support from the PSNP) was estimated at 8.6 million, down by 12% from the 9.8 million in 2006⁸.

As regards the Health Sector Development Programme (HSDP)⁹, a review in 2007 of its implementation and prospects indicates that reaching MDGs by 2015 will require a dramatic

⁶ Capturing the Demographic Bonus in Ethiopia: Gender, Development and Demographic Action, WB 2007.

⁷ Final Aide memoire, JRIS Mission, December 13 2007.

⁸ Inasmuch as the past four years witnessed significant agricultural growth, it has not yet been possible to determine whether the programme is fully capable of permitting beneficiaries to withstand modest shocks.

⁹ Ministry of Health: "*Scaling Up for Better Health*" – February 2007.

expansion of health services, the scaling up of high impact interventions and a doubling of expenditure. This excludes the cost of the National Nutrition Programme which was launched in 2007 with EC support and aims at addressing severe nutrition problems in Ethiopia which has the second-highest malnutrition rate in Sub-Saharan Africa.

In the recent World Bank/Government Report that analyses Ethiopia's challenges in the demographic area the issue of population growth is highlighted as follows: "With a population of 78 million in mid-2005 Ethiopia belongs to the 18 most populated countries in the world. Ethiopia has the second-largest population in Sub-Saharan Africa after Nigeria and is expected to grow to 173 million by 2050. Ethiopia will then become one of the 10 most populous countries in the world". The Report then makes the point that the country finds itself on the verge of the second phase of the demographic transition which Ethiopia could go through if fertility would decline substantially more, to be in equilibrium with the declining levels of mortality. The latter could materialise if stronger Government and donor efforts would enable several key programmes to be scaled up, including education and the provision of contraceptive materials. The report comes to a startling conclusion: "about 5 in 10 married women expressed needs for family planning services in 2005, though only 1.5 out of 10 married women currently use contraception, **often due to supply constraints**". Meeting these constraints appears to be a major challenge to both donors and the Government, but recent analysis of the prospects for aid scaling-up reveals the danger that these challenges may not be fully met.

Financing constraints stand in the way of reaching MDGs.

In 2007 concern arose among both donors and the Government that external assistance prospects for the remaining half of the MDG period would put the reaching of MDG goals in jeopardy. An EC-supported study conducted for the High-Level Forum Meeting of the DAG and the Government¹⁰ in June 2007 concluded that on needs' and absorptive capacity grounds Ethiopia had a strong case for requesting a doubling of external assistance over the coming five years. Its conclusion was that external assistance would need to double from the current level to an annual US \$3.2 billion by 2010/2011 to help Ethiopia carry out PASDEP's ambitious High-Case MDG scenario. The latter is the base year of the Gleneagles commitment to raise aid to Africa by 100% by 2010. Annual aid levels of this magnitude should make it possible to substantially expand Government expenditures for non-monetary poverty reduction as well as to finance infrastructure and other programmes for high growth to reduce monetary poverty. If aid were to be raised to US \$3.2 billion by 2010/11, this would bring per capita aid provision to Ethiopia to US \$38, up from US \$26 today as the OECD calculates it¹¹, and would raise Ethiopia's per capita aid to some 90% of the current SSA average, up from 60% today, and from 29% in 2001.

With a further strengthening of the Government's management of the Ethiopian economy and democratic governance, Ethiopia's donor coalition appeared to be willing to raise external assistance levels to slightly over US \$2.3 billion by the year 2010/11, some US \$900 million short of what it would take for Ethiopia to reach its MDGs. A Survey of Donor Financing Intentions, however, also indicated that a relatively large number of Ethiopia's donors feel that although they have reached a plateau in their aid programmes for Ethiopia, they could increase their aid provision further if there were significant prospects for the Government to strengthen human rights and democratic governance. It was concluded that further discussions between Ethiopia's donor coalition and the Government were needed to ensure that aid will double in a period when capacity for aid delivery and utilization for reaching MDGs is expanding.

¹⁰ Accelerating Development in Ethiopia - A Road Map for Scaling Up External Aid; June 2007.

¹¹ Which constitutes the basis for donor decisions in aid programming exercise.

2.2 Overview of Past and Ongoing Co-operation

InterAction between the National Authorising Office and Delegation became more Effective

The Ethiopia 9th EDF End-of-Term Review was completed in 2007, well ahead of the timeframe provided, paving the way for signature of the innovative €150 million Protection of Basic Services (PBS) programme. The 10th EDF CSP/NIP 2008-2013 was signed during the EU-Africa Summit in Lisbon on 9th December 2007, following a positive decision of the EDF Committee.

In 2007 the Government and the Delegation interacted in a very collaborative and effective fashion which enhanced co-operation between Ethiopia and the EC. An important result has been that it was possible to commit all 9th EDF and previous EDFs' indicative country allocations through releasing funds from old commitments before the set expiry date— 30 April 2007. In meetings chaired by Ministers and involving high-level EC decision makers and implementing institutions, project implementation bottlenecks were addressed for such projects as Coffee Improvement- IV, Addis Ababa Water Supply, Railway Rehabilitation. Remedial action was identified and taken. Implementation of the €55 million African Union Capacity Building Programme took off gradually and a first progress review took place in July. As to the overall resource transfer, coming from disbursements under EDF Programmes, EC Budget Lines and EIB disbursements, the following highly encouraging picture emerged over the 2005-2007 period (in €mln):

Table 4: EDF/EC/EIB Disbursements to Ethiopia 2005-2007

Category	2005	2006	2007
EDF	118	110	206
Budget Lines	4	26	9
Total EC	122	136	215
European Investment Bank	4	25	29
Total EC, Budget Lines and EIB	126	161	245

Numerous Financing Agreements were signed and became operational. These include agreements for the Protection of Basic Services Programme (€150 million), De-Mining (€8 million), Polio Eradication (€3.2 million), Productive Safety Nets (€8 million), Water Facility (€6.5 million), Flood Rehabilitation (€7 million), Technical Co-operation II (€3.2 million) and Civil Society Fund-II (€5.65 million). Moreover, addenda were signed for the Addis-Jimma road project (€60 million additional), and for the Road Sector Policy Support Programme (€7.4 million additional).

In 2007 the NAO Office, the Delegation and Implementing Agencies kept up their monthly tripartite project review meetings. This helped in identifying and addressing implementation problems on a timely basis. In 2007 the NAO and the Commission launched a study aimed at improving monitoring systems of EU-financed projects. Three workshops were organized on the monitoring system and on EDF rules and regulations; about 100 people participated. Strengthening the capacity of the NAO Office became a priority in 2007: NAO staff went on short-term training abroad. Better performing office facilities were also made available. In 2007 the NAO assumed more responsibility for issuing payment orders.

Improved Government/EC management of EC-supported development projects

More collaborative management of the EC-supported portfolio of projects in 2007 had its desired effect: it led to acceleration in disbursements to a record €215 million in 2007 which compares with €136 million in 2006. At the same time, the quality of the assistance portfolio improved in terms of its ability to reach many more people with development services than in the years before. In fact, decisive progress could be observed in the scaling up of programmes for direct poverty reduction: several instruments demonstrated their robustness in reaching very large numbers of

the poor through innovative sector programmes for social sector services delivery. One such instrument was the multi-donor financed PBS which reached millions of people; the other one was the PSNP under which over 7.2 million chronically food-insecure people received grants in a more timely fashion. In 2007 there was also demonstrable progress in the scaling up of programmes for reducing the country's infrastructure deficit, through ERA's Roads Sector Policy Programme as well through rural infrastructure provision through the PSNP. Significant advances were also made in the provision of support to NSAs through the Civil Society Fund while, at the same time, NSA were brought into the review of several sector programmes, including the PSNP. Progress was also made in developing EC support for governance strengthening. A summary overview of selected projects; implementation is provided in Annex a.3 but a review of salient developments in the focal sectors is provided below.

2.2.1 Transport Sector

Ethiopia has one of the lowest road densities in Sub Sahara Africa, and very poor connections with its neighbouring countries. This prevents the proper functioning of markets, especially in rural areas, and constitutes an impediment to regional integration. The high priority Government attaches to transport sector development is reflected in PASDEP which sets ambitious targets for reducing the infrastructure gap. As to rail transport, the Governments of Ethiopia and Djibouti decided jointly to upgrade, rehabilitate and give out the operation and management of the Railway system to an Operator on Concession Agreement basis.

In 2007 the EC intensified efforts to ensure improved donor coordination, alignment and harmonization in the roads sector by helping to create a Sector Working Group for the Transport sector under the Development Assistance Group. The EC assumed jointly with ERA its Chairmanship. The EC-financed study to formulate a National Transport Strategy and to elaborate a National Transport Master Plan was completed in 2007. The Master Plan was submitted to a stakeholders workshop in October 2007 and subsequently presented to the Ministry of Transport. It placed RSDP III in an overall transport sector context from which the design of a follow-on Sector Policy Support Programme can benefit.

Roads Sub-Sector

Physical performance by ERA under its Road Sector Development Programme (RDSP) 1997-2007 – a key part of the Government's efforts to enhance connectivity in the country - has been impressive. This can be seen from the impact which RSDP II (2003-2007) has had on road conditions in Ethiopia. To give only 3 examples, (i) asphalt roads in good condition have risen from 35 to 60% in 2007, (ii) gravel roads in the same condition increased to 45%; and (iii) under RSDP II alone some 30 000 km of community roads were built, over four times the target of 7 500 km. The implementation of the three main EC-financed projects under RSDP also progressed considerably in 2007, with all three roads virtually completed by year-end.

An important step forward in 2007 was the initiation of the €155 million Sector Policy Support Programme (SPSP) for the roads sector, through EC sectoral budget support as financing modality. Following the fulfilment of conditions of the Financing Agreement, the first and the second fixed tranches, totalling €84.8 million, were transferred to the Government in 2007. As to the release of the first Variable tranche, scheduled for end-2007, a review by the Government indicates that virtually all milestones were met by then. To illustrate, the ERA was able to accomplish 96% of its physical targets, reflecting improved programme implementation and strong budget management. In addition to new road construction, ERA's focus on maintaining the road condition at the "good" level was fully met: in fact performance on disbursements for road maintenance exceeded the target by over 60%. Of special significance is the success which

the Government has had in involving the private sector in road sector operations: under RSDP I local contractors had a 20% share of all contracts. This reached 55% under RSDP II and a record 88% of all contracts in 2007, the first year of RSDP III. However, progress was not made in 2007 with including the road fund budget for maintenance in the national budget as a memorandum item, a problem which the recent PEFA assessment already highlighted.

RSDP III covers the 2007-2012 period. Its main objective remains the restoration and expansion of the road network, but with an increased focus on lower category roads, i.e. regional roads. A follow-on SPSP is planned to support the implementation of RSDP III. The latter is larger than its combined predecessors, involving investments reaching €2.7 billion equivalent, with the Government contributing €2.1 billion. Implementation of RSDP III will also benefit from the results of the EC-supported Capacity Building Project which started in 2007 and aims at enhancing the human resources capacity of governmental and private organisations in the roads sector.

Regional Connectivity

The feasibility study for the Mieso-Dire Dawa-Guelile Road progressed in 2007. Its completion is scheduled for 2008. The project involves road works of 387 km and is part of the Government's programme to improve Ethiopia's access to the port of Djibouti. Its financing is not foreseen under the 10th EDF. The Government also requested the Commission in August 2007 to consider financing the Togowachelle –Kalabydh road connection which would facilitate transport to Somalia through the Berbara Corridor and provide access to the port of Berbara. The CSP/NIP for the 10th EDF includes the financing of infrastructure works for regional integration, focused on enhanced connectivity with neighbouring countries.

Ethio - Djibouti Railway Rehabilitation

While works for the rehabilitation of the railway line to Djibouti are progressing largely on schedule, the concessioning of railway operations was substantially delayed following withdrawal of the preferred bidder for the concession. As a result, an agreement could not be signed. Both governments remain committed to handover the railway company to a third party through concessioning and have entered into negotiations with a third party.

2.2.2 Agriculture, Food Security and Natural Resources Management

Ethiopia's agricultural performance appears to have been highly positive over the past four years. In 2007 value added in the sector rose by some 9% and crop production by 11%. Very significantly, cereals production rose by a spectacular 22%, up from 13.4 million tons in 2006 to 16.4 million metric tonnes in 2007¹². Cereal production in that year reached close to double the pre-drought level of 2003. While good weather helped, Government policy and programmes played an important part and led to better use by farmers of modern agricultural inputs. So did improved infrastructure. To illustrate, ERA constructed over 30 000 km of community roads. The PSNP also helped: over 18 000 km of farm-to-market roads were improved over the past three years. Other infrastructure works involved improvements to some 60 000 hillside terraces and to over 1 million stone bunds, and to maintenance of 35 000 km of rural access roads.

Other high points in agricultural performance reflect the impact of PASDEP's policy re-orientation: thus, part of commercial agriculture, including horticulture, flourished, while, at the same time, giving Ethiopia's agriculture a further export orientation. As to the latter, non-coffee

¹² It should be noted that the Crop and Food Security Assessment Mission of December 2007 estimated "total 2007 meher cereal production at about 21.5 million tons, some 7 % above the previous year's post harvest estimates. It is the fourth consecutive good harvest". The mission estimated production of cereals at 19.9 million tons for 2007/08 production year.

exports rose in 2007 to US \$602 million, up from US \$532 million the year before. The volume of coffee exports rose by 19% in 2007.

Table 5: Agricultural Exports 2005/06-2006/07

Export item	2005/06		2006/07	
	Quant.('000 MT)	Value (mln US\$)	Quantity ('000MT)	Value (mln US\$)
Coffee	148	354	176	424
Oilseeds	266	210	235	188
Chat	22	89	23	93
Hides and skins	9	60	15	77
Pulses	110	37	159	70
Flowers (mln stems)	63	22	136	64
Live animals	33	27	44	37
Other products		78		73
Total		877		1026

Source: National Bank of Ethiopia (NBE) and PASDEP-APR II.

Policy Issues

The resumption of the policy dialogue with the Government became the central focus of a High Level Forum meeting in November 2007 when steps were initiated for its re-structuring. An unresolved policy issue remained the explanation of the 18% rise in food prices which occurred in 2007 at a time when bumper crops of cereals would have expected the opposite. Several reasons were advanced to explain this paradoxical phenomenon, including the availability of increased expendable cash in the hands of PNSN grantees. The issue of food price increases assumed central attention in 2007 because of their impact on national inflation, leading the Government to initiate a detailed study of this problem. The year 2007 saw the emergence in Ethiopia of interest in addressing the country's energy problem through programmes for stimulating the production of raw material for bio-fuels. While the bio-fuels development policy that was formulated by the Ministry of Mines and Energy in 2007 recognises the advantages of fuel source substitution, it also cautions against possible negative environmental and food security effects. As to the latter, there appears to be considerable scope for strengthening the enforcement of environmental impact assessments of investments in bio-fuels development.

Food Security

Because of the large increase in cereal crop production, and following a decision to address emergency caseloads in PSNP Woredas through the contingency budget of the PSNP, the Humanitarian Appeal for food aid assistance reached the lowest level since 1996, involving only 1.4 million people who live mostly in the Somali region and suffered from the effects of flooding.

Table 6: Trends in Cereals Production and Food Security 1966-2006

	Pop. Mln	Cereal Prod (Mln tonnes)	Cereal Prod Per Capita (kg)	Benef. DPPC Appeal (Mln)	% of pop.	PNSP Benef. Mln	Total Benef. (Mln)	% of pop
1996	56,4	...	...	2,8	4,9	--	2,8	5,0
1999	61,7	...	...	7,2	11,7	--	7,2	11,7
2000	63,5	...	...	10,6	16,6	--	10,6	16,7
2002	67,2	8,7	129	7,9	11,7	--	7,9	11,8
2003	69,1	6,3	91	13,3	19,1	--	13,2	19,1
2004	71,2	9,0	126	7,2	10,1	--	7,2	10,1
2005	73,0	10,0	136	3,8	5,2	4,8	8,6	11,8
2006	75,1	13,4	178	2,6	3,5	7,2	9,8	13,0
2007	78,0	16,4	210	1,4	1,8	7,2	8,6	11,0

Sources: Central Statistics Agency (CSA), DPPA, EC, Food Security Control Board

Yet, chronic food insecurity and malnutrition remain major problems in Ethiopia: in 2007 close to 8.6 million people – 11% of Ethiopia’s population – required assistance under emergency programmes and the PSNP, double the share of population in 1996.

Food insecurity remains a complex problem in which lack of access to as well as availability and quality of food play an essential role. Weak purchasing power of the poor, imperfections in the marketing system and transport bottlenecks are explanatory factors. Thus, policy against poverty and food insecurity focuses on increasing connectivity and raising incomes of vulnerable groups. The EC intervenes in the rural sector through the EDF and the Food Security Budget Line.

Productive Safety Nets and Food Security Programme

Since 2005 the EC supports this multi-donor programme with €8 million (€60 million from the EDF, €20 million from the Food Security Budget Line and €18 million from the B-envelope). The year 2007 witnessed further progress towards meeting the Programme’s development objectives and demonstrated that the PSNP is becoming an effective means of moving beyond the emergency food aid system. The provision of predictable and timely transfers has improved the development prospects of PSNP beneficiaries, most of which reported they could avoid selling their assets in time of stress, attributing it to the PSNP. Their use of health and education services also increased. In addition, there were significant improvements to rural infrastructure, although not all of these were designed to be permanent.

In 2007 encouraging measures were taken by the Government to enhance programme implementation capacities through recruitment of technical assistants and financial management experts. However, capacity limitations, largely due to staff turnover, handicapped programme delivery. Even so, in 2007 the Government managed to reach 7.2 million people under the programme, by providing them with cash and food transfers: cash grants were given to 4 million beneficiaries, but another 3.2 million preferred food, reflecting higher grain prices. The experience of 2007 indicates a marked improvement in predictability and timeliness of transfers, but further progress is needed. So is improving planning and supervising public works to make productive asset creation a reality. The Government shifted the financial management system to Channel II, thus allowing for more active involvement by MoFED.

The EC undertook a mid-term evaluation of the PSNP in 2007 to assess the status of programme implementation. It concluded that the programme was on track in achieving its core objectives of filling food gaps and protecting household assets. It recommended further improvement to the timeliness of transfers, revision of the cash wage rate to reflect higher grain prices and better logistic support to Woredas for monitoring programme implementation.

Programme reviews in 2007 also identified the need for articulating a longer-term vision of the PSNP. At its start in 2005, the vision of the PSNP was based on the graduation of 5 million chronically food insecure households from food insecurity within 5 years. However, preliminary evidence from the PSNP impact assessment suggests that this target will not be achieved. One reason is the inadequacy of linkages between the Productive Safety Net and other food security programmes. To illustrate, the provision to PSNP beneficiaries of credit packages under the Food Security Grant was limited by the small size of the overall grant, so that only some 25-30% of PSNP households had access to credit packages. The latter is seen as an essential element in the exit strategy out of what otherwise could become an open-ended social protection system. The fine tuning in 2006 of the M&E system will ensure that information on activities under the Federal Food Security Programme is improved.

Following several joint programme reviews in 2007, donors and the Government agreed to re-visit the vision of the PSNP. This entails a possible revision of Government policy on food security and a revised design of a third phase of support to the Food Security Programme, which is anticipated to be at least comparable in size to the current PSNP. This process will be led by the Government, in partnership with donors.

Fourth Coffee Improvement Programme

Both the volume and value of Ethiopia's coffee exports is rising significantly, in part reflecting positive results of this programme. The latter, however, has potential for contributing further to supporting the Government's policy of raising incomes of small-scale coffee smallholders through improving the delivery of coffee research results to them. Conserving Ethiopia's and the world's coffee genetic resource base and ensuring a sustained increase in the supply of Coffee Berry disease resistant coffee seedlings is also a key component of the programme.

Since the €15 million Financing Agreement was signed in 2002, the programme faced implementation difficulties, and in 2007 the Commission and the Government reviewed again its status and outlook. This led to the launching of a Programme Management Unit in the Ministry of Agriculture which has the potential for invigorating programme implementation.

Natural Resources Management

Environmental degradation remains a critical issue in Ethiopia. Population growth and commercial investments, including bio-fuel plantations and flower industry projects, could impact negatively on the natural resource base. In 2007 the Commission prepared a Country Environmental Profile which can help in designing coping mechanisms. The Commission and the Government also began preparing a natural resources management project in 2007.

2.2.3. Macro-Economic Support and Trade

Macro-Economic Policy Dialogue and Analysis

In 2007 the Commission stepped up its contribution to the economic policy dialogue with the Government and towards a strengthening of the knowledge base for the Ethiopian economy. Its efforts covered the areas of: (i) Preparing a Diagnostic Survey of the Ethiopian Economy; (ii) Conducting a Public Expenditure and Financial Accountability (PEFA) study; (iii) Preparing a Report on the Financing of PASDEP and the Scaling up of Aid; and (iv) Participating in the donor dialogue with the Government on trade and private sector development issues.

Diagnostic Survey of the Ethiopian Economy

The Diagnostic Survey served as a basic document for the preparation of the Country Support Strategy and Indicative Programme for the 10th EDF period. It was prepared in collaboration with EU Member States as a basic document for the eventual elaboration of an EU support strategy for Ethiopia. It built on the Government's work for PASDEP and reviewed key strategies and programmes, stressing the need for enhancing connectivity within Ethiopia and in the Horn of Africa. It recommended stronger internal resource mobilisation by the Government and highlighted favourable key external financial developments, including high levels of external assistance, strong inflows of international NGO contributions and remittances. The latter analysis was followed up by the Government and the IMF which prepared a study on private remittances.

Public Expenditure and Financial Accountability (PEFA) Study

This study was completed in 2007 as a sequence to long-time Government efforts for strengthening public finance management in Ethiopia. It covered both Public Finance Management (PMF) at the Federal and the Regional (sub-national) level. The results of the PEFA

exercise are being considered by the Government and will help the Commission in coming to conclusions about Ethiopia's eligibility for receiving Sector Budget Support (SBS) for such programmes as the SPSP II and PBS II. Follow up to the study could also help in considering a possible resumption of General Budget Support (GBS) during the 10th EDF period.

Financing of PASDEP and the Scaling up of Aid

This study which was carried out at the request of the DAG contributed towards the resolution of divergences between values of external assistance inflows as observed by the Government and those reported by the DAC/OECD. The study also identified Ethiopia's needs for external assistance to reach MDG goals and pointed to steps which donors and Government could take to ensure aid scaling up for reaching MDG goals. A result of the study was also that the DAG and the Government agreed to restructure the macro-economic dialogue and to also use the quarterly High-Level Forum (HLF) meetings to more effectively tackle cross-cutting issues, including those affecting private sector development and governance.

Dialogue with Government on Trade and Private Sector Development issues

In 2007 the Commission and the Government discussed with Member States, USAID, UNDP, and the World Bank key issues of Ethiopia's WTO accession process and EPA negotiations. The dialogue with EU Member States took place through the network of EU Trade Counsellors. A "*Non-Paper on Trade and Investment*" was prepared for use by the Government in preparing for the Article 8 Political Dialogue on Economy and Trade. As regards private sector development, both Delegation and EC staff from Brussels participated in a workshop on "*Investment Climate and Competitiveness*" organised by the World Bank and the Government

Protection of Basic Services (PBS): In November 2007, the Commission was nominated Co-Chair of the PBS donor group, while it also acted as the Chair of the PBS Social Accountability group. In this capacity, the Commission was actively involved in preparing for and follow-up to the PBS Mid-Term Review (MTR) and the three Joint Review and Implementation Support (JRIS) missions in 2007. The Commission also played a key role in the elaboration of a Concept Paper that serves as a basic document for discussions with the Government on the thrust, composition and timing of PBS II.

2.2.4 Governance and Co-operation with Non-State Actors

Governance

Reflecting shared co-operation objectives of the wider donor community and the Government which are set out in PASDEP, development of support for the justice sector and to strengthen democratic institutions started in 2007. To the extent possible, use will be made of harmonised instruments to ensure joint strategies towards strengthening governance in Ethiopia. Support for the justice sector seeks to strengthen the on-going Justice System Reform programme. The first step is launching a pre-feasibility study to design a programme for implementation in 2009/2010 with funds from the Technical Co-operation Facility (TCF).

Proposals were also formulated in 2007 to strengthen, jointly with other donors, democratic institutions that are key to the consolidation of the democratic transition in Ethiopia. This would take the form of contributing financing to a fund established for this purpose. Work started on the drafting of a Financing Agreement that could lead to a contribution agreement with UNDP for supporting the multi-donor "Democratic Institutions Programme (DIP)".

Support for Non-State Actors (NSAs)

Since the Civil Society Fund (CSF) started, two Calls for Proposals and one round of small grants were implemented to support CSOs capacity building and initiatives for strengthened service delivery in the governance area. The CSF contribution under both the Capacity Building and Governance components reached €3 million. The Fund successfully stressed the importance of real partnerships in all projects: around 75% of CSF projects are implemented in partnership with one or more organisations, with 16 projects directly engaging more than 90 organisations. In line with PASDEP, all CSF projects are mainstreaming gender equality in its activities.

A Mid-Term Review (MTR) of the CSF programme was carried out in early 2007 and focused on institutional setups, management procedures and involvement of the different actors. Its generally favourable assessment permitted the signing of the Financing Agreement for Phase II. The Project Steering Committee deliberated in 2007 on what had worked and what had not worked so well in 2007. It concluded that the CSF should focus more on regional development actors and adopt an approach more suitable to the needs and operational contexts of smaller and less-capacitated CSOs, the latter involving a stronger emphasis on capacity building.

Cotonou Task Force (CTF) In the year the CTF reorganised its Secretariat and held a General Assembly Meeting. The Meeting agreed to consider broadening the participation of civil society groups in the CTF structure and processes, so that it could strengthen its position as a representative body of Ethiopian CSOs engaged in tripartite co-operation and dialogue. The CTF also met with the EU Troika in the framework of the Cotonou Agreement

DAG Civil Society Sub-group

This DAG Sub-group held several meetings in 2007. Charged with mapping out institutional options and strategies for more systematic and structured dialogue on civil society issues, it identified as key issues the legal and institutional framework regulating civil society operations in Ethiopia as well as ways to reinvigorate the dialogue between civil society and Government.

2.3 Policy Coherence for Development

The EC strategy for Ethiopia reflects EU Coherence for Development Commitments, in particular those relating to trade, environment, security, agriculture, food aid, migration and transport. The design of the CSP is consistent with the EU Regional Political Partnership for Peace, Security and Development in the Horn of Africa. Under the 9th EDF, several EU policies impacted on aid delivery in Ethiopia. The EU's commitments in the Paris Declaration - to scale up aid and to improve its impact and speed of delivery - provided an important backdrop for accelerating progress to meet MDGs by 2015. These commitments were strengthened by the "*EU Strategy for Africa*" which aims at an effective scaling up of development assistance, and by the "*European Consensus*" which outlines common strategic objectives shared by Member States.

Ethiopia's economic growth potential can only be exploited to the full when integrated into both the regional as well as the global economy. EC support for Ethiopia's growth agenda contributes to the economic development of both Ethiopia and the region, and fits the context of promoting Peace and Security in the Horn of Africa. Infrastructure development for strengthening both intra-regional and inter-regional interconnection in the Horn of Africa is a key objective of the EC strategy for developing Ethiopia's transport sector. In the context of the EU-Africa Infrastructure Partnership, the EC will develop infrastructure and related services as well as interconnections within the Horn and between African regions. The focus will be on enhanced connectivity with neighbouring countries. Additional or co-financing with the Regional Programme and/or the EU-Africa Infrastructure Partnership is aimed at.

Duty-free quota access to EU markets under the Everything-but-Arms initiative was an important trade preference, but one which Ethiopia has yet to exploit fully, inter alia because of supply-side constraints. Fostering regional integration through Partnership Agreement (EPA) negotiations is a key objective that is being pursued. In EC regional and pan-African programmes, special emphasis is put on infrastructure and communications as strategic vehicles for regional integration in line with the Africa Strategy.

In January 2007, the EC published guidelines for gender equality which recognize the importance of a balanced mix of men and women in the planning and implementation of EC-supported projects and programmes, as well as the promotion of women's participation in service delivery. The Commission also adopted a Communication "*Towards an EU Strategy on the Rights of the Child*", which includes as one of the first actions the adoption of an "Action Plan on Children and Development." Consultations with the Government are ongoing, and their results will guide the EC and the Government in developing a child-centered programme component in Ethiopia.

In 2007 the EC discussed migration issues with the Government, of which the outcome was the inclusion of migration in the Article 8 Political Dialogue as well as the establishment of a migration "co-operation platform" in Ethiopia.

2.4 Joint EU-Africa Strategy

2.4.1 EU Strategy for Africa

In line with the EU Strategy for Africa an EU Road Map for aid harmonization was agreed for Ethiopia, and an Annual Action Plan was set out to implement this. The Road Map concentrates on improving coordination of EU programmes, analysis and missions, reforming the DAG, exploring areas for joint initiatives, promoting division of labour, establishing an online database of all EU programmes, establishing a knowledgebase of donors' studies, raising awareness of co-operation commitments and opportunities, and establishing Action Plans for co-operation with the World Bank and the UN. In this way the Strategy's recommendations for reducing transaction costs, building partners' capacity and responsibilities and better integrating EU aid have been followed. The Strategy also stresses involvement in areas as governance, interconnecting the economies of Africa, building an environmentally sustainable future, and establishing joint support programmes, all of which have been targeted by EC programmes in Ethiopia in 2007.

2.4.2 First Action Plan

The First Action Plan for the EU-Africa Strategy stresses work on infrastructure, democratic governance and human rights, trade, food security, health, education, the mapping of civil society networks, and the championing of the MDGs. EC work in Ethiopia will cover these issues in 2008. To illustrate, the NIP earmarks significant funding for the Road Sector Policy Programme. A contribution to the multi-donor Democratic Institutions Programme will support democratic governance and human rights. Work on the Trade Capacity Building Programme and financing for the private sector under the multi-donor Engineering Capacity Building Programme will promote trade. Food security will be targeted through co-financing of the PSNP while health and education will receive support under PBS II. Civil society networks are being mapped under an EC-financed study. Finally, the championing of MDGs as a framework for the several initiatives will be promoted by flagging which MDGs are targeted by which programmes in the online Blue Book and pushing the DAG to track MDG progress in its sectoral reports.

2.5 Donor Coordination and Harmonisation

2.5.1 Progress during 2007

The EC approached the Division of Labour with the production of an Action Plan, formation of a multi-donor Division of Labor Team, a sensitization campaign to the Government and other donors and the production of a questionnaire to establish comparative advantage as well as criteria and roles for lead and active donors. Other work covered spearheading reform of the DAG to improve donor coordination, the establishment of a Sector Working Group for transport which the EC co-chairs, the establishment of an online Blue Book of EU programmes and their alignment with MDGs and Paris Commitments, the construction of an online knowledge base of studies and strategies and the establishment and implementation of concrete Action Plans for co-operation with the World Bank and UN. Further sensitization to commitments already made appears needed among donors, as is more devolution of power to country offices to implement these and the showcasing of best practice.

2.5.2 Outlook

EU co-operation will continue to be promoted as part of the wider donor harmonisation effort. An EC-prepared questionnaire on comparative advantage will be launched to establish lead and active donors. Once completed, answers to the questionnaire will make it possible to provide a matrix showing proposed donor sectors and financing, which is unfortunately not possible at the present time¹³. However the online blue Book does provide a comprehensive picture of EU Member States' present sectoral involvement and financing.¹⁴ The EC will push for continued implementation of the reforms to the DAG which it proposed and had agreed by other donors in 2007. Improved sector mapping and dissemination of results, lessons-learned and best practice will also be pursued. The EC-co-chaired Sector Working Group for Transport will strive to be an example of best practice. Tracking of Paris Commitments will continue. So will work with the Government-Donor Harmonisation Task Force to identify which Commitments are not being met and what actions are needed to address this.

The EC supports the Government's collaboration with the DAG and its leadership in aid effectiveness and donor coordination. Present in the Joint DAG Harmonisation Task Force, the Government recently took the initiative to establish Sector Working Groups, which it chairs. Efforts will be made to convince non-EU donors to add their projects to the online Blue Book database. Coordination of analysis and missions will also be pushed to get all donors on board with the EC practice of producing summary tables of these to stimulate co-operation.

2.5.3 In-field Dialogue between HoD and National Authorising Officer

In 2007 the dialogue between the Head of Delegation and the National Authorising Officer (NAO) was cordial and productive. In their periodic meetings key policy and programme issues were discussed and satisfactorily resolved. Of importance was the opportunity for dialogue which arose in the preparations process for the CSP and which led to an early emergence of consensus.

More generally, the collaboration between the EC and the NAO Office was significantly strengthened in 2007. This enabled the commitment of all 9th EDF and previous EDFs indicative country allocations, through releasing funds from old commitments before the set expiry date—30 April 2007. On top of that, agreement on the End-of-Term Review (ETR) was reached, and the document was signed well ahead of the timeframe provided. In addition, the finalization of the JAR 2006 and CSP documents was accomplished in a very participatory manner.

¹³ the stimulus for the questionnaire was the lack of readily available information on this subject.

¹⁴ See: <http://www.deleth.ec.europa.eu/bluebook/index.php>.

2.6 Dialogue in country with NSAs, Local Authorities and National Parliaments

Dialogue with NSAs

Reflecting strong Commission and Government efforts, the involvement of CSOs and other economic and social partners showed marked improvement. The preparation in 2007 of the Joint Annual Review and the articulation of the CSP for the 10th EDF provided frequent opportunities for Government/EC discussions with NSAs, in particular with the Cotonou Task Force. In several other consultative forums organized by the Government, the Commission and Non-State Actors, NSAs enriched the discussion and documents through their timely contributions and by providing substantive comments.

In 2007 NSAs were not only consulted on EC/Government strategies and programmes, they participated increasingly in discussions on sector policies and programmes as well. To illustrate, NSAs joined the Government, the Commission and the Ethiopian Roads Authority in November 2007 in a Forum organised to review the EC-financed National Transport Strategy. In addition, for the purpose of jointly reviewing the adequacy of EC programmes in rural development and food security, the Commission organized in 2007, jointly with its NGO partners, a successful Regional Dialogue and Advocacy Forum with regional government institutions, involving representatives from NGOs/CSOs operating in the SNNPR region, SNNPR government institutions, selected Woreda government offices and representatives of the farming community.

In 2007 the European Court of Auditors carried out a comprehensive audit on the role of NSA as partners in development co-operation. This multi-country audit focused inter alia on: *'Does the Commission ensure that NGOs/NSAs are involved adequately and effectively in the development co-operation process, including the provision of capacity-building support?'* First impressions of the Team appeared to be positive for Ethiopia. Its Report is expected in the first half of 2008.

Dialogue with Local Authorities

In the context of the Commission's support for Ethiopia's de-centralisation process, the Commission involved local authorities in several ways in the economic policy and programme dialogue. To illustrate: (i) Representatives of the SNNPR Regional Government, as well as those of Woreda authorities in the SNNPR region, contributed to a discussion on the Commission's strategy and programmes in rural development and food security; (ii) The Public Expenditure and Financial Accountability (PEFA) Study of 2007 included an evaluation of the quality of public financial management of Ethiopia's Regional Governments; and (iii) The Joint Budget Annual Reviews conducted in the context of the PBS programme provided repeated opportunities for discussion with representatives of regional governments in forums organised by MoFED.

Dialogue with Parliament

Towards year-end the Government made the CSP/NIP for the 10th EDF available to the Parliament's Standing Budget Committee. The Government also discussed with members of the Joint Parliamentary Assembly, including the Speaker of the House, their interest in becoming better acquainted with Government/EC collaboration in promoting economic growth and reducing poverty in Ethiopia. This interest extends to the Joint Annual Review process.

2.7 Conclusions

The improved collaboration between the EC and the Government which is described in previous Chapters augers well for future co-operation under the 10th EDF. The strengthening of the Article 8 Political Dialogue in 2007 holds promise for a continuation of an issues-oriented policy

dialogue which could cover economic and political governance, private sector development and trade, immigration, as well as the involvement of NSAs in a tripartite dialogue with the Government.

Of great importance for poverty reduction has been the progress that was made in scaling up poverty-reducing programmes as PBS and the Productive Safety Net. This enabled the Government, the Commission and other donors to contribute towards improving the well-being and productive capacities of millions of Ethiopia's citizens. The positive lessons learned over the past few years make it evident that the potential exists and highest priority attaches to the early replication and scaling-up of these programmes under the 10th EDF. It is also becoming evident that the potential which has been identified for making faster progress in Ethiopia's demographic transformation may need to be exploited by putting more weight under PBS II to the provision of contraceptive supplies, the limited availability of which continues to stand in the way of women's wish to reduce their risk of pregnancy.

Commission support for the programmes of the Government to accelerate economic growth has also had its successes. This is particularly the case with the Road Sector Policy Support Programme which is demonstrating the advantages associated with the Commission's first sector support operation in Ethiopia, i.e. reducing transaction costs for the Government and enhancing predictability of resource transfers, while permitting the dialogue between the Commission and the Government to extend beyond project implementation issues towards those of policy and programming. The capacity that has been built in the transport sector for policy analysis and programme design was strengthened by EC-supported capacity building efforts, including the elaboration of the National Transport Master Plan. This will help in designing SPSP II. While progress in 2007 with the concessioning of the Ethiopia-Djibouti Railway has not materialized, the potential is there for more progress in 2008, hopefully laying the basis for strengthening Ethiopia's access to other countries in the Horn of Africa.

As regards rural development and food security, the year 2007 saw significant progress in the operations of the Productive Safety Net Programme which is proving to become a robust instrument for reaching millions of Ethiopia's chronically food insecure people. Yet, questions have arisen about the issue of people's graduation from the programme and integrating it better with other programmes of the Government, to avoid that the Safety Net becomes an open-ended instrument for supporting livelihoods of the poor. This is a challenge to the Commission, other donors and the Government and will involve a more effective dialogue between donors and the Government. Another challenge for the Commission and the Government is to review once again the prospects for strengthening the effectiveness of the Coffee Improvement Programme so that it can reflect more fully the high priority that the Government attaches to Ethiopia's export development.

The year 2007 saw further progress in the dialogue on strengthening governance in Ethiopia within the context of PASDEP's policy matrix. Progress made in 2007 should enable the Commission and the Government to advance further with proposals for the provision of financing for strengthening governance.

The restoration in 2007 of the donors' dialogue with the Government on economic, public finance and external financing issues, including the Government's dialogue with the IMF, constitutes a strong basis for considering in 2008 the provision of Sector Budget Support for PBS II and SPSP II. As the EU dialogue with the Government progresses in 2008 and beyond on economic and political governance, a possible return to General Budget Support could be explored and possibly considered at the time of the Mid-Term Review of the 10th EDF.

Lastly, as regards the management of the fast expanding EC-financed programme and projects portfolio, which in 2007 had been constrained by human resource capacity limitations, several developments that occurred in 2007 point to a probable alleviation of this problem in 2008, i.e.: (i) The establishment of a second Delegation dealing exclusively with the Africa Union; (ii) The improved and more effective collaboration between the NAO; and (iii) The decision to move the Delegation's office to a more suitable building in 2008.

Annex 3.a.1 - Key Macro-Economic Performance Indicators

	2000	2001	2002	2003	2004	2005	2006	2007
Basic data								
1	Population (in 1000)	64	66	68	70	72	74	76
	- annual change in %	2.9	2.9	2.9	3.0	2.7	2.7	2.7
2a	Nominal GDP (in millions €)		6230	5863	6378	7494	9035	10490
2b	Nominal GDP per capita (€)		94	86	91	104	122	138
2c	- annual change in %		-0.3	-8.5	5.8	14.3	17.3	13.1
3	Real GDP (annual change in %)		1.2	-1.7	13.1	13.4	10.3	10.0
4	Gross fixed capital formation (in % of GDP)		24	23	21	26	24	
International transactions								
5	Exports of goods and services (in % of GDP)		11.5	12.4	15.6	16.6	20.0	20.5
	- of which the most important: coffee (in % of GDP)	2	2	3	2	2	3	3
6	Trade balance (in % of GDP)					21	24	25
7	Current account balance (in % of GDP)				-10	-11	-16	-13
	Excluding Official Transactions							
	Including Official Transactions				-2	-5	-9	-8
8	Net inflows of foreign direct investment (in % of GDP)							
9	External debt (in % of GDP)				85	76	54	47
10	Service of external debt (in % of exports of goods and non-factor services) –				15	15	14	13
	Before Debt Relief							
	After Debt Relief				7	6	7	5
11	Foreign exchange reserves (in months of imports of goods and non-factor services)				3	4	3	3
Government								
12	Revenues (in % of GDP)				16	17	17	17
	Grants (in % of GDP)				7	5	5	3
13	Expenditure (in % of GDP)				30	25	27	25
	- of which: capital expenditure (in % of GDP)				9	10	12	12
14a	Deficit (in % of GDP) including grants				-7	-3	-5	-5
14b	Deficit (in % of GDP) excluding grants							
15	Debt (in % of GDP)				124	121	97	80
	- of which: external (in % of total public debt)				69	63	56	59
Other								
16	Consumer price inflation (annual average change in %)			24	12	13	6	6
17	Interest rate (for money, annual rate in %)			13	14	14		
18	Exchange rate (annual average of national currency per 1 € US \$)		8.3	8.5	8.6	8.7		
19	Unemployment (in % of labour force, ILO definition)				26			
20	Employment in agriculture (in % of total employment)				12			

Annex 3.a.2 – Key MDG Indicators

	Indicators	1990/ 1991	2000/ 2001	2004/ 2005	2005/ 2006	2006/ 2007	PASDEP Target 2009/ 2010	MDG 2015/ 2016
Impact	1. Proportion of Population below Poverty Line (%)		42	34	34		29	21
	2. Prevalence of underweight children (under – five years of age)		57		47			30
	3. Infant mortality rate				77		45	
Out- put	4. Net enrolment ratio in primary education (%)		29		37			
	5. Primary Completion Rate		25		40		63	100
	6. Ratio of girls to boys in:							
	➤ Primary education			80	84		97	100
	➤ Secondary education			52				
	➤ Tertiary education			80				
	7. Proportion of births attended by skilled health personnel (%)		9		11		32	75
	8. Proportion of 1 year old children receiving DPT3 vaccination (under 1)		38	61			80	100
	9. HIV prevalence among 15-24 year old pregnant women (%)		8	10			8.6	
	10. Proportion of population with sustainable access to an improved water source (%)		28		36			50

Source (s): PASDEP MoFED, MDG Needs Assessment for Ethiopia 2005, Demographic Health Survey (DHS) 2005

Annex 3.a.3: Implementation Status of Selected |Projects

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Annex a.3: Implementation Status of Selected Projects

A. Focal sectors (and macro-economic support)

1. Transport

Addis – Modjo - Awassa Road Rehabilitation Project (265 km)

Construction of the civil works which started in 1998 has been substantially completed. After submitting a technical audit aimed at resolving technical issues, the Contracting Authority and the Contractor signed an Amicable Settlement Agreement to settle their disputes. The final statement of account was agreed and payment has been made in December 2007. The project being technically completed, the financing commitment was closed in December 2007.

Addis Ababa – Jimma Road Rehabilitation (342 km)

The construction of civil works commenced in 1999 but in the course of project implementation it appeared necessary to revise the paved design. This had serious technical, financial and time consequences requiring a Rider for an additional allocation of €17 million to help carry out the revised pavement strategy.

Estimates indicate that by end-2007 the cumulative physical performance of the project was 277 km (85.9%) indicating a modest improvement in the overall progress of the project since mid-2007 despite problems caused by a long wet season. The physical works of the project are unlikely to be completed within the latest revised date of completion, i.e. June 2008. The overall financial disbursement of the project is estimated to be 98 % of the total contract price as at the end of December 2007. Following a request by Government for additional funding to complete the remaining physical works of the project, an agreement for amending the Financing Agreement for additional resource of €60 million was reached with the Commission. Accordingly, the implementation of the Financing Agreement was extended to December 31, 2009.

Addis –Dessie-Woldiya Road Project (521 km)

The project is substantially completed. A provisional acceptance letter has been given to the Contractor for the whole completed physical works, with the exception of minor remaining remedial works which are expected to be done by ERA itself. Currently, the Contracting Authority and the Contractor are pushing forward towards an amicable settlement to settle outstanding claims, taking into account the experience of the two parties on the Addis Ababa-Modjo-Awassa road project.

Meiso-Dire Dawa-Dewelle(Guelile) Road Project (387 km)

The Financing Agreement for the preparatory studies for the above mentioned project has become operational since June 24, 2004. A €1.4 million contract was awarded in 2007 for a study that comprises detailed design and feasibility studies as well as an Environmental Impact Assessment. The study comprises three phases that may need almost three years to be completed. The study has been underway since September 10, 2006 and the Inception Report was submitted by the consultant in October 2006.

National Transport Master Plan Study

The study was completed and the Consultants' reports were submitted to the Contracting Authority, Ministry of Transport and Communications for comment. The draft Transport Master Plan was discussed in a workshop for stakeholders (Ministries, Donors, NGOs and the private sector) October 2007.

Road Sector Policy Support Program (SPSP)

The Financing Agreement in an amount of €155 million was signed on October 12, 2006 to support the Government's efforts for expanding the road network through EC sectoral budget support as a new financing modality. Following the fulfillment of conditions of the Financing Agreement the first and the second fixed tranches, totaling €84.8 million, were transferred to Government in 2007. As of end-December 2007 Government and the Commission were examining whether the release conditions for the first Variable Tranche had been met.

The Program's 30 months' capacity building component with an estimated cost of €4.8 million, was finalized. Its objective is to enhance human resources capacities in ERA, ERA's Training Centres, Regional Roads Authorities, the Transport Authority and Private Sector Associations with a budget of €2.7 million.

Ethio - Djibouti Railway Rehabilitation

While works for the rehabilitation of the railway line to Djibouti are progressing largely on schedule, the concessioning of railway operations is, however, substantially delayed following disagreement between the preferred bidder for the concession and the Governments of Ethiopia and Djibouti. As a result an agreement could not be signed. As both governments remain committed to handover the railway company to a third party through concession, they have entered into negotiations with a third party.

Both the works and supervision contracts were signed in 2006 and implementations of the works and supervision services started in March 2007. The contractor has already started the embankment at Methahira and supervision activities on bridges were conducted. The establishment of sleeper factories at Dire Dawa has been well advanced and it is also expected to be finalized in February 2008. Overall, however, works have progressed with some delay and, cost overruns are foreseen

2. Food Security Rural Development

Productive Safety Nets and Food Security Program

The Financing Agreement for €60 million was signed in 2005 with a completion date for end of 2007. A rider to allocate an additional €18 million from the B-envelope was signed 2007, increasing program resources to €78 million from the EDF. The operational implementation phase of the FA was extended until end-2008 giving additional time for funds utilization. The trust fund contract with the World Bank was amended to reflect this. Disbursement of EC funds commenced in 2006 when a €29.6 advance was provided and an additional €26.6 million was disbursed to the Trust Fund in May 2007, after the World Bank confirmed that 50% of the total funds available for the trust fund had been committed. The EC made a further commitment in December 2006 to allocate €20 million from the Food Security Budget line resources for which a Financing Agreement was signed in March 2007. A Rider to this FA to extend the operational implementation phase up to April 30, 2010 was submitted to Brussels in November 2007 to align it with the completion date of the Multi-Donor Trust Fund of the PSNP. The first advance of €9.5 million from the food security budget line allocation was processed at end-2007.

In 2007 Government enhanced implementation through recruitment of technical assistants and financial management experts. While capacity limitations remained a problem, in 2007 it was still possible for Government to reach 7.2 million people by providing cash and food transfers. While Woredas disbursed cash grants to 4 million beneficiaries, as many as 3.2 million beneficiaries still preferred receiving food, the latter reflecting increasing grain prices. There was a marked improvement in ensuring the predictability and timeliness of transfers which improved the well-being of PSNP beneficiaries. To illustrate, a majority of beneficiaries reported they could avoid selling their assets to buy food, the latter largely attributed to the PSNP. The use of health and education services also increased among beneficiaries.

The MTR of the PSNP of 2007 concluded the program was on track towards achieving its core objectives of filling food gaps and protecting household assets. It recommended further improvement in the timeliness of transfers, revision of the cash wage rate in the light of rising grain prices, as well as further provision of logistic support to Woredas to allow them to more effectively follow up of programme implementation. Government-Donor Joint Review and Implementation Support (JRIS) Missions also observed further improvement in program performance and concluded that the PSNP has proven to be an effective means of moving beyond the emergency food aid system, which was seen to be of limited transparency and accountable.

Looking ahead, a recent JRIS review concluded that there was need to develop a long-term vision of the Programme, inter alia to address the issue graduation from the program. Thus, donors and Government agreed to embark on this process which entails reviewing policy on food security in the context of designing a possible third phase of support to the Food Security Program. It is anticipated that the latter could be at least comparable in size to current commitments to the PSNP. This process will be led by Government, in partnership with donors. It will inform donors about continued participation in the next phase of the PSNP.

Support to Nutrition and Food Security Information System Programme

This programme was signed in February 2006, for implementation by UNICEF, Ministry of Health, the Central Statistical Authority (CSA) and FAO. Project objectives are twofold: (i) to improve the nutritional status of the most vulnerable group of the population (children and mothers), thereby lowering the under-five mortality rate in drought prone districts; and (ii) to strengthen information systems in CSA and DPPA for food security to improve the quality of food security and relief interventions.

The programme has two components; (i) the Improvement of Nutrition Status Information system component for which a contract of €7,6 million was signed in June 2006 with UNICEF to support the Government's nutrition programme; and, (ii) the Food Security Information System Component for which a contract of €2 million was signed with FAO in November 2006.

Under the first component in 2007 three EOS campaigns that provided child survival packages (supplementation of vitamin A and de-worming tablets) and screening of children and pregnant and lactating women for malnutrition and if so required referring them to the therapeutic and supplementary feeding programme have been carried out. Reportedly, the first two EOS campaigns have on average reached 5.8 million children under five years of age and about 900,000 lactating and pregnant women in the four regions. Furthermore, a number of planned Emergency Nutrition Coordination Units' (ENCU) activities including identification of "hotspot" districts with increased malnutrition, and documentation of Nutrition situation and mortality rate in children under 5 years in selected "critical" districts twice a year were being implemented with some delay. Following the approval of the no-cost extension of the nutrition component of the

programme, plan of the ENCU activities has been revised and among other things the implementation of procurement of equipment, provision of trainings and conducting of nutrition surveys were being progressed.

Under the 'Food Security Information System' component of the programme the Delegation has signed a contribution agreement with FAO for the value of €2,000,000 on 27 November 2006. In 2007 implementation of a number of activities which were aiming at definition of suitable methodologies for evaluating crop extent and area extent, improvement in collection and dissemination system of market prices of key commodities, improvement in agro-meteorological data management and crop yield forecasts, creating adequate information system that provides standardized food security and early warning data and definitions, improvement in communication and collaboration between international and national stakeholders, and increase in understanding of emerging FS issues in the framework of PSNP have been implemented. The overall implementation has shown some delay and a no-cost extension of the contribution agreement for additional 9 months is proposed by FAO and formal submission of the proposed request is being awaited.

Food Aid 2004 allocation (€30 million): A company was contracted for monitoring local purchase and distribution of 45 000 MT of food aid to be carried out by DPPA and funded by EC, has monitored 35 500 MT, but the balance of 9 500 MT was not been monitored due to defaulting. No cost extension of the implementation period of the service contract was granted and after repeated effort the DPPA advertised for re-tendering on November 29, 2007. A second contract to monitor the local purchase of 63 000 MT of food aid was awarded and signed. DPPA has not yet launched the tendering due to the rise in grain prices. The NAO and the DPPA have been provided with factual data that opting for international purchase would cause reduction in quantity of grain to be reimbursed to EFSRA. The Delegation is expecting a NAO/DPPA reply.

Complementary AWP 2004 - Relief aid - 3 Mln Euro. The distribution of 2 197 MT of food was accomplished in 2007 for around 60,000 beneficiaries living in 10 Woredas of Amhara, Oromia and Afar NRS. The operation of one NGOs project, expected to end in December 2007, was extended up to March 2008 while operations of the other two projects have been completed.

AWP 2005 – NGOs Food Aid and Food Security Programme Ethiopia - Relief Food Aid 2006 (€14 million): Under this work plan, 3 942 MT of food and 539 MT of seed have been distributed to 126 020 and 2 664 beneficiaries, respectively, in pastoral areas of Somali and Oromia regional states of Ethiopia. Implementation periods of the projects were extended to end of 2008, taking into account the recent appeal procedure of the DPPA.

NGO Food Security and Rural development projects: 25 NGOs food security and rural development projects, with a budget €20.3 million, were ongoing in 2007. Implementation of 8 projects was completed by end-2007. The Delegation, jointly with two EC-funded ongoing NGOs Food Security projects (Action Aid Ethiopia/UK and Christian Aid UK/SOS Sahel) and the Civil Society Fund organized a two-day Regional (Southern Regional State) Dialogue and Advocacy Forum among CSOs/NGOs, government institutions and other actors. The main topics of the forum were mainly related to policy and practices under food security programs, including the PSNP, and on more effective coordination and integrations of the various food security initiatives.. About 80 representatives participated in the forum, from NGOs/CSOs, the SNNPR Regional and Woreda officials/experts, representatives of farming communities, farmers unions/cooperatives; local consulting firms; one agricultural inputs manufacturing company and the WFP regional office..

Coffee Improvement IV

Both the volume and value of Ethiopia's coffee exports is rising significantly, in part reflecting positive results of this programme. The latter, however, has potential for contributing further to supporting the Government's policy of raising incomes of small-scale coffee smallholders through improving the delivery of coffee research results to them. Conserving Ethiopia's and the world's coffee genetic resource base and ensuring a sustained increase in the supply of Coffee Berry disease resistant coffee seedlings is also a key component of the programme.

Since the €15 million Financing Agreement was signed in 2002, the programme faced implementation difficulties, and in 2007 the Commission and Government reviewed again its status and outlook. This led to the launching of a Programme Management Unit in the Ministry of Agriculture which has the potential for invigorating programme implementation.

3. Macro-Economic Support

Trade Capacity Building (TCB) Programme: Following signing of the Service Contract by all parties, the team of Technical Assistants to manage the Trade Capacity Building Unit (TCBU) within the Ministry of Trade and Industry took up duty on 1 April 2007. Unfortunately, the TCBU Team Leader had to be replaced on 1 December which caused delays in the preparation of Programme Estimate No. 1.

Public Sector Capacity Building Program (€8.4M - PSCAP):

The Financing Agreement of €9 million for an Integrated Financial Management Systems (IFMS) project was signed in May 2003 and aimed at bringing about a more effective use of Government funds. Two years ago stakeholders decided to transfer the remaining project funds to the US \$ 400 million Public Sector Capacity Building Program (PSCAP) which focuses on public sector capacity building in areas as decentralization, justice system and tax system strengthening and civil service reform. The Commission conducted an assessment on the compliance of the public systems and it underlined the fact that the transfer of the remaining IFMS fund to the PSCAP can only be made based on positive outcome of the assessment which is currently underway. The Commission Decision for "Support to PSCAP" has been taken and signature of the FA awaits a positive outcome of the Compliance Assessment undertaken in December 2007.

Protection of Basic Services (PBS): This €150 million programme (2007-2009) consists of four components: (i) Sub-National Basic Services; (ii) Health MDG Performance Facility; (iii) Financial Transparency and Accountability; and (iv) Social Accountability. Activities under the four components are implemented through Multi-Donor Trust Funds managed by the World Bank. Other donor agencies contributing to the Trust Funds are AfDB, CIDA, DfID, Irish Aid, JICA, KfW and the Netherlands. The Financing Agreement for PBS was signed by the Delegation and the NAO on 16 May. Signature of the Administrative Agreement with the World Bank paved the way for an advance payment of € 75M into the Multi-Donor Trust Fund for Component 1. In October 2007 an additional 6.6 million euro, which was planned to be released during the first quarter of 2007, was transferred to the PBS account. Request of the release of €35 million was submitted to EC towards end of 2007 and has taken considerable time to prepare a payment order for the transfer.

In November 2007, the EC Delegation was nominated Co-Chair of the PBS donor group, while it also acted as the Chair of the PBS Social Accountability group. In this capacity, the Delegation was actively involved in the preparations and follow-up of the PBS Mid-Term Review and the three Joint Review and Implementation Support (JRIS) missions that have taken place in 2007 (February, May and November).

B. Projects and Programs outside Focal Sectors

1. Governance, Democracy and Human Rights

Capacity Building for Governance

Developing support for the justice sector and to strengthen democratic institutions is one of the main initiatives take in 2007. This is in line with shared key cooperation objectives of the wider donor community and Government which are set out in PASDEP. To the extent possible, interventions will make use of harmonized instruments to ensure consistent joint strategies towards strengthening governance in Ethiopia. As regards the justice sector, the intervention seeks to strengthen the on-going Justice System Reform program. The first step is launching a pre-feasibility study to design a program for implementation in 2009/2010 with funds that remain available under the 9th EDF. Dialogue started with Government on this first steps.

Proposals were formulated in 2007 for supporting democratic institutions through contributing funding, jointly with other donors, to a fund established to help strengthen institutions that are key to the consolidation of the democratic transition in Ethiopia. Work has started on the drafting of a Financing Agreement that could lead to a contribution agreement with UNDP for supporting the multi-donor "Democratic Institutions Program".

European Initiative for Democracy and Human Rights

During the year NGOs responded positively to EC expectations: every three month an implementation report is submitted to ensure an effective monitoring system. In addition a pilot M&E initiative has been launched and quarterly the Delegation organizes training. Delegation is concerned about the exclusion of Ethiopia from the EIDHR Micro Projects Fund for 2007 and 2008. A decision on an EIDHR allocation for 2008 is under consideration.

2. Education Projects

Education Sector Support Development Program (ESDP - €3 Million):

After de - committing €20 million, the remaining €3 million was kept aside to employee technical assistants to build capacity of the Books Unit and ESDP Secretariat of Ministry of Education and other related activities like pool fund and joint mission.

A Contribution Agreement for a €500.000 contribution to the Education Pool Fund was signed by the EC Delegation and the UNDP on 21 December 2007. Implementation started for the Technical Assistance project for the ESDP. This program was originally intended to accompany a now de-committed €23 million sector support program. Two senior consultants are currently assisting the Ministry of Education on textbook development and capacity building,, and are being involved in the formulation of a new quality improvement pool fund for education. In the textbook area, the Government has been reluctant to open up for privatization of textbook development, which has complicated efforts to improve the quality of school textbooks.

3. Social Development Projects

Addis Ababa Water Supply Project - €19.5 million

The implementation of the Gafarsa Dam project (water supply reservoir for Addis Ababa) is much delayed, so much so, that there is a high risk of failing to complete the project before the expiration of the FA validity period (15 July 2008). The EC has brought this to the attention of

the authorities at the highest level with a view to take remedial measures, especially with a new geo-technical problem at the main dam site that adds to cost Therefore, the risk remains high!

Implementation of 5 grant contracts and one contribution agreement with UNICEF under the Water Facility first call for proposals is progressing well. Implementation of the co-funded project with EIB and GoE (15 small towns) has not yet commenced, the FA was signed very recently only. Upon request of the NAO a water expert will be recruited under Framework Contract Procedure, as soon as TCF II is operational. Under the second call for proposals on Water Facility, three grant contracts have been signed with three NGOs. Unfortunately, after negotiation, a contribution agreement could not be reached with the World Bank (this project will suffer strongly from problems with VAT exemption).

Polio Eradication Project:

The nationwide polio eradication project with WHO was signed in March 2007. After a WHO Technical Advisory Group met on the prospects for implementation, it was decided to conduct a regional immunization in the Somali Region in May 2007, as well as to plan for National Immunization Days in June and October. The June nationwide immunization campaign, which targeted more than 15.5 million children, was conducted successfully throughout.

4. Cultural Projects

Lalibela Churches

Except the shelters none of the other activities foreseen in the Financing Agreement have been started. Following discussions among key actors to incorporate related activities to the existing works, EC agreed to commit additional resources for additional works for Bugna Woreda, fencing of Lalibela, appurtenances, photo exhibition and booklet. Subsequently, in June 2007, parts of the funds were decommitted and the money is reallocated for other priority projects and programmes. Following the approval of Variation Order No. 2 to the works contract, implementations in Bugna Woreda Centre and appurtenances have been commenced.

So far, constructions of four shelters were completed and activities in Bugna Woreda and appurtenances are nearing completion. EC and NAO played a crucial role in bringing the project to completion with in the implementation phase of the Financing Agreement. The Financing Agreement of this project expired by the end of December 2007. Additional costs will be borne by Government.

5. Safeguarding Religious Treasures of the Orthodox Church

The original contract and rider expired some years back with out accomplishing activities foreseen. To accomplish activities foreseen in the original contract, in February 2007, a Memorandum of Understanding was signed between major stakeholders - the contracting authorities- Tigray and Amhara Regions, the Contractor, NAO and EC. Significant progress was made in 2007 towards the accomplishment of the remaining project activities. The Contractor handed over the 2nd batch of slides of the various artifacts that were photographed earlier, a digital compilation of photographs of the 1st and 2nd batch of slides, posters and postcards, and the draft texts (for Tigray Region in Tigrigna and English and for Amhara Region in Amharic and English) to be commented by the contracting authorities. Consequently, with concerted efforts of all stakeholders, the objectives of the project had been attained at the end of 2007.

6. Other Projects

Technical Co-operation Facility (TCF):

The Financing Agreement for TCF I was signed in May 2004, for an outlay of €5.38 million for activities, such as technical assistance services, short term training program and seminars, participation in international meetings.

In 2007, through framework contracts, the capacity of NAO and the Delegation was supported which led to clear improvement in the implementation of the NIP. NAO experts obtained short term training on aid mobilization and negotiation. Office equipment has been procured to NAO staff. Through TCF fund, NAO staff was able to participate in international meetings, such as ACP – EU Council of Ministers meetings. Accountants have been employed by the NAO. NAO organized workshops on EDF procedures to the contracting authorities of EDF projects.

TCF II is the continuation of TCF I, the Financing Agreement for TCF II was signed in September 2007. At the beginning of October 2007, a new Programme Estimate was signed and activities are underway. In addition, through frame work contracts consultants have been engaged in assisting with specific tasks: such as 10th EDF CSP preparation, Annual Action Plan and other related activities.

Reintegration of Ethiopians displaced from Eritrea Project

Under the 8th EDF, the Commission has been supporting a project aimed at reintegrating Ethiopians displaced from Eritrea with in the host communities. The total resource allocated for this purpose is €6.67 million which was designed to be implemented from 19/03/2003 to 30/06/06. GTZ International Service and ZOA Refugee Care are executing the project in Amhara and Afar Regions. Out of the total resource committed for the project €1.13 million (77%) was transferred to both beneficiaries and executed until 30 June 2007. The vehicles and office machines such as computers and copiers were handed to the local governments. The closure audit report is awaited from both beneficiaries after which the remaining amount could be claimed by the beneficiaries based on the approval of the reports as a reimbursable.

Mine Action Project:

An €8M Contribution Agreement with UNDP for de-mining in the Tigray and Afar regions was signed late December 2006, for implementation by the Ethiopian Mine Action Office (EMAO) in 2007. A Rider to add €2M initially reserved for social rehabilitation and to allow mine action operations in the Somali region was signed by the EC and the ACP Secretariat on 18 December 2007

Utilization of Resources for Non-State Actors (NSA)

Civil Society Fund (CSF): Following a second Call for Proposals in May 2007 four capacity building projects were selected and contracted, including one to support the operation of the Cotonou Task Force and 2 in the Somali and Afar regions which had heretofore not been covered. Remaining funds under Phase 1 have been contracted for a Mapping Study which is needed for Phase 2. The tripartite EC-Government-Civil Society management structures of the Fund are functioning, indicating a strong contribution of the programme to enhancing the state-non-state dialogue. Adjustments in the operation of the Technical Assistant Unit (TAU) were introduced taking into account the recommendation of the CSF MTR (in particular permanent position for Monitoring and Evaluation)".

Following the positive Mid Term Review of the programme, the financing agreement for Phase II was prepared and signed. The main adjustments following the recommendations of the MTR were: M&E reinforcement (in particular a permanent position for M&E in the TAU, simplification of Call for Proposals procedures, more focus on visibility and continuation of efforts to sustain the successful Tripartite Dialogue Structure.

C. Utilization of Envelope B

Following the Mid-Term Review (MTR) the Commission decided to reduce the country's B-envelope indicative allocation (€77 million) and after the End-of Review (ETR) it decided to further deduct €25.97 million. As a result of these two deductions the country's overall B-envelope indicative allocation had become €51.03 million, down from the originally €154 million. In 2007 three Financing Agreements totaling €38.2 million had been signed by the Commission from the B-envelope resources.

D. Other Instruments

STABEX (€5.3M)

An amendment to the Framework of Mutual Obligations for STABEX 1999 was approved by Brussels in September 2007. The Rider enables Government to implement support for agricultural exports.

Environment Budget Line projects: Evaluation of two participatory forestry management projects has underlined the positive impact of both interventions but also the need to consolidate and further expand this innovative forestry management initiative in other parts of the country.

E. Regional Co-operation

Nyerere Program: the Delegation has participated to the identification mission on a 60M euro Program to the AU to support student exchange in the ACP. The Delegation has also submitted comments to the Nyerere Program concept paper.

Stability Instrument: the Delegation has participated in the RELEX Identification Mission to identify possible projects to be funded by the Stability Instrument, and has been deeply involved in the elaboration of the budget, the formulation and conclusion of the Contribution Agreement for the support of AMISOM Planning Cell, as well as in discussions on a potential support to the IGAD/CEWARN Rapid Response Fund.

IGAD – Conflict Prevention, Management and Resolution in the ESA region (€10M): The Financing Agreement has been signed in November. The tender for Technical Assistance launched on the basis of a suspense clause is ongoing.

IGAD Institutional Strengthening Programme (€1M): Following the institutional assessment, an Institutional Strengthening Programme to IGAD has been developed. Although the project passed the EDF Committee in July, the HQ has put on standby the signature of the Financing Agreement. This is because a miscalculation in the End of Term Review for the ESA region has led to lack of funds for this project.

F. Intra-ACP Cooperation

ACP-EU Water Facility

A project to upgrade water supplies in 15 small towns is ongoing under the Water Facility. A €6.5 million Financing Agreement was signed in June 2006 for this project which is co-funded with EIB and Government. Contracting a Consultant for design review and procurement assistance is ongoing, implemented by the Ministry of Water Resources and financed by EIB.

Three new projects (NGO component) have been signed in October and November 2007 for a total EC contribution of about €6M.

Implementation of 5 grant contracts and one contribution agreement with UNICEF under the Water Facility first call for proposals is progressing well. Implementation of the co-funded project with EIB and GoE (15 small towns) has not yet commenced, the FA was signed very recently only. Upon request of the NAO a water expert will be recruited under Framework Contract Procedure, as soon as TCF II is operational. Under the second call for proposals on Water Facility, three grant contracts have been signed with three NGOs. Unfortunately, after negotiation, a contribution agreement could not be reached with the World Bank (this project will suffer strongly from problems with VAT exemption).

ACP-EU Energy Facility

Grant contracts are under way with two NGOs (€2 Million). A Financing Agreement to support four African power pools and the Utilities Regulation Authority is under preparation, as is a €2.6 million Technical Assistance contract to the East African Power Pool.

G. European Investment Bank (EIB)

EIB activity, in 2007, was focussed on the implementation and supervision of projects in three basic sectors (public infrastructure and SMEs) as follows:

Electric Power. A third EIB co-financed project (Gilgel Gibe II Hydro power plant) in favour of the Ethiopian Electric Power Corporation (EEPCO) was signed in November 2005 for a total amount of €50 million. Contributing to the increase of generation capacity, it concerns the construction of a 428 MW hydro power plant and related transmissions lines and is co-financed by the Italian bi-lateral cooperation. In 2007, €21 million was disbursed. Another project (signed with EEPCO in December 2002), EEPCO Urban Power Distribution and Load Dispatch Centre, is a €25 million project which lies under Lomé Convention; during 2007, €7.6 million was disbursed.

Water and Sanitation. A project aimed at improving basic urban water supply and sanitation services for some 500 000 people residing in 15 medium-sized towns across the country was defined with the Ministry of Water Resources and signed on December 2006 for an amount of €6.5 million. The project is the Bank's first involvement in the water sector in Ethiopia and will be co-financed by the ACP-EU Water Facility. In 2007, the EIB has established contact with the EC Delegation in Addis and followed closely the launching of the procedure for recruiting Procurement Advisory Services, which is the first sub-contract financed by the loan within the PCU (Project Coordination Unit).

Small and Medium Enterprises. The Bank is closely monitoring the utilization of funds under a second loan to the Development Bank of Ethiopia (DBE) - signed in December 2003 for an amount of €25 million – to help finance small and medium-sized local private enterprises. The new management of DBE has shown a very strong interest for resuming the operation under this loan. As of Dec 2007, 17 allocations have been approved for disbursement as soon as January 2008, for an amount of €1.77 million.

In line with the European Union's strategy, the EIB will continue to operate in all sectors of Ethiopia's economy, notably by promoting the development of key infrastructure projects and supporting investments undertaken by private small and medium-sized enterprises through its partnership with the local banking sector. Under the Cotonou Agreement, the Bank has the specific mandate to finance the private sector as well as the commercially-run public sector at market rates.

Private sector. The EIB conducted, during the last quarter of 2007, an Appraisal Mission for the preparation of the first private sector investment, to be submitted to its Board of Directors in 2008 for signature. The project (in the form of a project finance structure) will be directly funded by the Bank - with IFC, ADB and a local Bank (DBE) – and is related to the construction of Derba Midroc Cement plant.

Annex 3.a.4:

PEFA PERFORMANCE INDICATORS IN THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA¹

	A. PFM OUT-TURNS: Credibility of the budget	Scoring
PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	B
PI-4	Stock and monitoring of expenditure payment arrears	A
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	Scoring
PI-5	Classification of the budget	B
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	D+
PI-8	Transparency of Inter-Governmental Fiscal Relations	B
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+
PI-10	Public Access to key fiscal information	D
	C. BUDGET CYCLE	Scoring
	C (i) Policy-Based Budgeting	
PI-11	Orderliness and participation in the annual budget process	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C
	C (ii) Predictability & Control in Budget Execution	
PI-13	Transparency of taxpayer obligations and liabilities	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C
PI-15	Effectiveness in collection of tax payments	[Not scored]
PI-16	Predictability in the availability of funds for commitment of expenditures	D+
PI-17	Recording and management of cash balances, debt and guarantees	B
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	C+
PI-20	Effectiveness of internal controls for non-salary expenditures	C+
PI-21	Effectiveness of internal audit	C+
	C (iii) Accounting, Recording and Reporting	
PI-22	Timeliness and regularity of accounts reconciliation	B+
PI-23	Availability of information on resources received by service delivery units	(Regional PEFA)
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	C+
	C (iv) External Scrutiny and Audit	
PI-26	Scope, nature and follow-up of external audit	C+
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	C+
	D. DONOR PRACTICES	
D-1	Predictability of Direct Budget Support	C
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C
D-3	Proportion of aid that is managed by use of national procedures	[Not scored]

¹ Scoring is assigned based on best international practices and corresponds to a scale of four (4) points: A (best performance) to D, with the possibility of intermediate scoring (+).

Annex 3.a.5.1: Partnerships and Priority Actions of the Lisbon Plan (Country: Ethiopia)

1. Two significant departures from the thrust of EDF 9 involve (i) in the first instance the inclusion in Ethiopia's EDF 10 of **two governance-related programmes**, i.e. the initiation of programmes for the strengthening of democratic governance (€29 million) as well as of a programme to strengthen gender equity in Ethiopia; (€20 million); (ii) the second departure relates to **private sector development (€30 million) and regional integration (€20 million)**.

2. The increase in allocations for **governance strengthening** involves two components, of which the first one reflects the re-invigoration of the governance dialogue between donors and Government within the context of PASDEP. Proposed support for democratic governance includes a **contribution to the multi-donor support programme for strengthening of the justice sector as well as to the multi-donor Democratic Institutions Programme**. The second component, **Enhancing Gender Equity foresees** a strategic contribution to women's rights enforcement and empowerment, supporting both NSA efforts and Government programmes. A specific programme is proposed to boost progress in the areas of gender equality, promotion and enforcement of women's rights which could include reproductive health to help accelerate Ethiopia's demographic transition.

3. Support for **private sector development** involves the provision of financing for the Engineering Capacity Building Programme which is designed to complement the Integrated Framework/Diagnostic Trade Integration Study (IF/DTIS) process which, in turn, is designed to strengthen implementation of the Government's Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) 2005/06-2010/11. The latter argues that the high economic growth rates required to meet the Millennium Development Goals will materialize with a private sector that participates fully and actively in Ethiopia's development and that benefits optimally from the country's planned entry into the COMESA Free Trade Area, a possible Economic Partnership Agreement with the European Union and its future membership of the World Trade Organisation.

4. A first €20 million has been set aside under EDF 10 to supplement **regional interconnection projects**. One possible project would be the rehabilitation and upgrading of a 387 km section of the Addis Ababa – Port of Djibouti corridor route between the towns of Mieso and Guelile (via Dire Dawa). The other one involves developing the Berbera Corridor to Somalia. GoE intends to also secure funds from the ESA RIP and will also contribute to this from its own resources.

Table 3.a.5.2: Partnerships and Priority Actions of the Lisbon Plan

Country: Ethiopia

Strategy for Africa	European Consensus	Sectors	Partnership and Priority Actions of the Lisbon Plan	EDF 9 (€Mln)	EDF 10 (€Mln)
1. Human rights and governance	Governance, human rights, economic institutional reforms			18	59
		Governance	Democratic governance and human rights	(--)	(29)
		Economic, institutional Reform		(8)	
		Non-State Actors		(10)	(10)
		Gender	Gender		(20)
2. Peace and security	Conflict Prevention	Conflict prevention	Peace and security	---	---
3. Economic growth, regional integration, trade				244	255
	Trade and regional integration	EPAs, regional economic integration, private sector development	Trade and regional integration	(5)	(5)
			Private sector development	(--)	(30)
	Infrastructure, communication and transport	Infrastructure, communication and transport		(226)	(220)
	Water and Energy	Water		(18)	
		Energy			
4. Investing in People				219	150
	Environment and sustainable resource management	Environment and sustainable resource management	Climate Change	(6)	(10)
			Rural Development	(19)	(20)
			Food Security	(194)	(100)
			Health	13	
			Primary Education	30	
5. Other	TCF and NAO Support	TCF and NAO Support	TCF and NAO Support	7	5
	TCF	TCF, Support to NAO	TCF, Support to NAO	(7)	(5)
6. Budget Support				150	195
TOTAL				638	645

Annex 3.b.1) – Financial Situation for EDF
(OLAS Figures 31/12/2007)

GLOBAL COMMITMENTS (BRUT)

Target 1sem 2007	Target 2sem 2007	Target 2007 (100%)	Decided	%
163,200,000	28,050,00	191,250,00	194,928,149	102%

INDIVIDUAL COMMITMENTS (BRUT)

Target 1sem 2007	Target 2sem 2007	Target 2007	CONTRACTED	%
130,661,165	32,436,584	163,097,748	253,111,720	155%

PAYMENTS

Target 1sem 2007	Target 2sem 2007	Target 2007	PAID	% Target
30,680,247	91,699,801	122,380,048	253,111,720	155%

DECOMMITMENTS

Target 2007	Realised Definitif	Realised Temporaire	Total	% Par rapport au total
11,411,811	19,065,533	660,071	19,725,604	172%

Annex 3.b.2) – Financial Situation for GENERAL Budget Lines
(CRIS Figures 31/12/2007)

GLOBAL COMMITMENTS (BRUT)

Target 1sem 2007	Target 2sem 2007	Target 2007 (100%)	Decided	%
0	0	0	0	102%

INDIVIDUAL COMMITMENTS (BRUT)

Target 1sem 2007	Target 2sem 2007	Target 2007	CONTRACTED	%
0	799,998	799,998	22,751,175	2844%

PAYMENTS

Target 1sem 2007	Target 2sem 2007	Target 2007	PAID	% Target
5,739,051	6,199,767	11,938,818	9,371,107	78%

DECOMMITMENTS

Target 2007	Realised Definitif	Realised Temporaire	Total	% Par rapport au total
10,495,016	6,082,382	0	6,082,382	58%

Annex 3.d: Aid Effectiveness Questionnaire

The Commission has to report its performance annually against the four EU targets on aid effectiveness. The data for this will be collected through the EAMR reporting system. You are therefore requested to complete the questions below with specific information as noted so that the current baseline we have from the July 2007 EAMR can be tracked annually. The information will also be important for you to exchange with your government colleagues, NGOs and with other donors, including MS.

Delegations had difficulty completing the questionnaire for the July 2007 EAMR. Following discussions with them the guidance to measure each target has been made more specific, following the revised OECD guidance for the 2008 survey. We hope you find the new elements more helpful. If you would still like further clarifications please contact your desk officer in AIDCO.

Some Delegations will also be completing the OECD survey during Jan-March 08. Your responses below should make it much easier to answer the OECD survey.

Regional offices will have to complete Annex C separately for each country in their region.

Please note that within the strategy that EuropeAid in relation to EU Target 4 – reduce the number of uncoordinated missions by 50 % - a number of new points have been prepared:

- Delegations are invited to:

- list dates for HQ missions already planned for the immediate 6 months period and mention if they are not coordinated;
- indicate to HQ what priority missions the Delegations estimate better serves coordination arrangements at local level for the following 6 months period.

The periods for missions, to be used in the January and July EAMR are as follows:

- In the 2008 January EAMR; Delegations list missions agreed for the period March to August 2008 and indicate their priorities for HQ in the period September 2008 to February 2009;
- In the 2008 July EAMR: Delegations list missions agreed for September 2008 to February 2009 and then indicate their priorities for HQ missions in the period March to August 2009.

1. EU Target No 1
Channel 50% of government-to-government assistance through country systems, including by increasing the percentage of our assistance provided through budget support or SWAP arrangements
2. Introduction
The aim is to collect information that allows us to measure this target. The information that is needed is both the total amount of ODA provided, as well as the extent to which country systems are used in providing this ODA. For these purposes the country systems are defined as covering four main areas: (i) national budget execution procedures; (ii) national financial reporting procedures; (iii) national auditing procedures; and (iv) national procurement systems. By treating each of these four areas as having a 25% weight and dividing by the total amount of ODA provided the information required can be calculated (hence the division by four – see part 4 below). In all cases the necessary information can be collected using the same definitions as those in the OECD/DAC "Definitions and Guidance" (see attached page which includes an extract of definitions relevant to this indicator)
3. Questions and definitions

Question	Definition – OECD Ref	Response EUR
How much ODA did you disburse at country level for the government sector in FY 2007 (EUR)?	Qd2	192,997,512
How much ODA disbursed for the government sector in FY 2007 used national budget execution procedures (EUR)?	Qd5	151,425,700
How much ODA disbursed for the government sector in FY 2007 used national financial reporting procedures (EUR)?	Qd6	151,425,700
How much ODA disbursed for the government sector in FY 2007 used national auditing procedures (EUR)?	Qd7	151,425,700
How much ODA disbursed for the government sector in FY 2007 used national procurement procedures (EUR)?	Qd9	151,425,700
4. Definition of Indicator		
$[(Qd5 + Qd6 + Qd7 + Qd9) \div 4] \div [Qd2] \text{ (please calculate and enter as response \%)}$		Response % 78%
5. Additional information		
<p><i>Are there any significant initiatives in your country to promote the use of country systems? If so provide a list and a short description. If not, highlight the constraints to use of country systems (use additional space as needed)</i></p>		
<p>Increasingly we are channelling support through multi-donor programmes which, as far as possible, use Government systems. In the upcoming CSP for 2008-13, the following multi-donor programmes are forecast to be funded: Road Sector Development Programme (200m), Productive Safety Nets Programme (100m), Protection of Basic Services Programme (100m), Engineering Capacity Building Programme (30m), Democratic Institutions Programme (14m), Public Sector Capacity Building Programme (15m). These will all use Government systems as far as possible, as will the planned support to the Ministry of Culture and Tourism (10m). In addition we are working with Government to reform these systems so that they become more robust and therefore are able to support the channelling of increased donor funds. An example of this is our commitment to the Public Sector Capacity Building Programme and the Protection of Basic Services Programme both of which work to strengthen Government capacity. At the wider donor level, the Government-Donor Harmonisation Task Force has been re-started in late 2007 and will focus on improving donor performance on Paris targets, including the use of country systems. The Delegation is an active member of this Task Force. Ongoing division of labour efforts (see below) should see a consolidation of programmes and an increasing channelling of donor funding through coordinated programmes that use country systems.</p> <p>A key constraint to providing Direct Budget Support (DBS) is political – DBS will only be considered once it is clear that adequate improvements in governance have taken place.</p>		

Definitions from "Definitions and Guidance" OECD/DAC

ODA	<p>Official Development Assistance (ODA) includes all transactions as defined in OECD-DAC Statistical Directives para. 32 (see appendix), including official transactions that:</p> <ul style="list-style-type: none"> ▪ Are administered with the promotion of the economic development and welfare of developing countries as its main objective; and ▪ are concessional in character and convey a grant element of at least 25%.
Disbursements	<p>A disbursement is the placement of resources at the disposal of a recipient country or agency (see OECD-DAC Statistical Directives para. 15-18). Resources provided in kind should only be included when the value of the resources have been monetised in an agreement or in a document communicated to government. In order to avoid double counting in cases where one donor disburses ODA funds on behalf of another, it is the donor who makes the final disbursement to the government who should report on these funds.</p>
Government sector	<p>Administrations (ministries, departments, agencies or municipalities) authorised to receive revenue or undertake expenditures on behalf of central government.</p>
Disbursements for the government sector	<p>This category includes the disbursement of ODA in the context of an agreement with the government sector (see definition above), including works, goods or services delegated or subcontracted by government to other entities (e.g. NGOs, private companies).</p>
Use of national budget execution procedures (Q ^{d5})	<p>Donors use national budget execution procedures when the funds they provide are managed according to the national budgeting procedures as they were established in the general legislation and implemented by government. This means that programmes supported by donors are subject to normal country budgetary execution procedures namely procedures for authorisation, approval and payment.</p>
Use of national financial reporting procedures (Q ^{d6})	<p>Legislative frameworks normally provide for specific types of financial reports to be produced as well as for the periodicity of such reporting. The use of national financial reporting means that donors do not make additional requirements on governments for financial reporting. In particular they do <u>NOT</u> require:</p> <ul style="list-style-type: none"> ▪ The production of additional financial reports. ▪ Periodicities for reporting that are different from government's normal reporting cycle. ▪ Formats for reporting that do not use government's existing chart of accounts.
Use of national auditing procedures (Q ^{d7})	<p>Donors rely on the audit opinions, issued by the country's supreme audit institution, on the government's normal financial reports/statements as defined above. The use of national auditing procedures means that donors do not make additional requirements on governments for auditing.</p>
Use of national procurement procedures	<p>Donors use national procurement procedures when the funds they provide for the implementation of projects and programmes are managed according to the national procurement procedures as they were established in the general legislation and implemented by government. The use of national procurement procedures means that donors do not make additional, or special, requirements on governments for the procurement of works, goods and services. (Where weaknesses in national procurement systems have been identified, donors may work with partner countries in order to improve the efficiency, economy, and transparency of their implementation).</p>

1. EU target 2
Provide all capacity building assistance through coordinated programmes with an increasing use of multi-donor arrangements ¹
2. Introduction

¹ Despite the different wording the target is interpreted to correspond to Paris Declaration indicator 4. Please pay particular attention to the definition for the question Q^{d4}.

EU target 2 aims to measure progress in aligning and coordinating support for capacity development. It's closely linked with indicator 4 of the Paris Declaration. Therefore, the term "capacity building" used in the EU target is interpreted as "technical cooperation". This use of the DAC definitions allows consistency with the DAC monitoring of the Paris Declaration.

The term "coordinated" also refers to the DAC definition which covers the following principles: ownership of TC by partner countries, alignment of TC with countries/local strategies and objectives and, where more than one donor is involved, harmonisation of TC among donors.

To avoid confusion, we strongly advise that you use the definitions given in the OECD guidance, by clicking on the link <http://www.oecd.org/dataoecd/13/29/36306366.doc>. DAC criteria on this indicator are being updated to make them easier to use and in January the final version to be used for monitoring the indicators in 2008 will be available on this site.

Finally please note that a separate AIDCO initiative on EU target 2, related to preparing a strategy for achieving the target, is ongoing in 46 Delegations. Through this EAMR however, we hope to capture information from all delegations. Questions 1 and 2 below seek quantitative information on technical cooperation. Section 4 seeks qualitative information from delegations not participating in the survey launched by AIDCO (46 Delegations contacted) and provides the opportunity to share your experience and views.

3. Questions and definitions

1	How much technical cooperation did you disburse in 2007 (Total TC in EUR)? <i>OECD question reference in the Paris survey : Q^{d3}</i>	Euro 1.5M
2	How much technical cooperation did you disburse through co-ordinated programmes in support of capacity development in 2007 (EUR)? <i>OECD question reference in the Paris survey : Q^{d4}</i>	Euro 150,000
4. Definition of Indicator		
3	<i>Q^{d4} / Q^{d3} (please calculate this and enter in the next column as %)</i>	<u>10%</u>

5 Additional Information

4	<p>Qualitative information² :</p> <p><i>Are there any significant initiatives to promote coordinated technical cooperation in your country?</i></p> <p><i>If so, please provide a short description. And indicate whether they are linked to the Code of Conduct / Division of Labour process or any other "EU initiatives"</i></p> <p><i>If not, highlight key constraints delaying joint work on TC and capacity development.</i></p> <p><i>Please note any other comments you have on these issues</i></p> <p>Increasingly donors are moving towards multi-donor coordinated programmes implemented in partnership with Government. The Delegation is currently involved in several substantial coordinated multi donor programmes such as the Productive Safety Nets Programme, the Protection of Basic Services Programme, the Road Sector Development Programme, the Public Sector Capacity Building Programme and the Education Sector Development Programme. As mentioned above, in the upcoming CSP for 2008-13, the following multi-donor programmes are forecast to be funded by the Delegation: Road Sector Development Programme (200m), Productive Safety Nets Programme (100m), Protection of Basic Services Programme (100m), Engineering Capacity Building Programme (30m), Democratic Institutions Programme (14m), Public Sector Capacity Building Programme (15m). Such coordinated programmes are also promoted by the Development Assistance Group (DAG), the main forum for donor coordination in Ethiopia, of which the Delegation is an active member. The Delegation is championing a division of labour drive in the DAG which should lead to further consolidation of donor initiatives and an increase in multi-donor coordinated programmes. This has led to the establishment of a Division of Labour Team in late 2007 which is working to produce proposals for increased coordination and rationalisation of work in Ethiopia (see division of labour section below). Under these proposals, donors' contributions to coordinated programmes through delegated cooperation arrangements will be allowed in addition to the limited number of sectors on which they agree to focus. This will further encourage the use of such programmes. The Delegation has also established a dedicated DAG Thematic Working Group on Transport which it chairs along with the Ethiopian Roads Authority. The main aim of this group is to coordinate cooperation among donors in this sector. The Delegation's Blue Book online database of EU projects also acts as a tool to make coordination easier by showing donors which projects and programmes are already operational and therefore where coordination opportunities may lie. The Delegation's 'Stripped Down NIP', which has been distributed to other donors, provides a quick reference table of upcoming EC programmes and possible partners for coordination.</p>
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1. EU target 3

Avoid establishment of new project implementation units (PIUs).

² These questions are taken from the survey on " Developing an EuropeAid Strategy on TC and PIU" sent to delegations which are members of the Aid Effectiveness Network. **They need to be answered by delegations who are not participating in this survey.**

2. Introduction

EU target 3 aims to assess progress towards strengthening local capacity by tracking the number of PIUs put in place to manage projects and programmes. It is linked to indicator 6 of the Paris Declaration. This target is interpreted as "avoiding the establishment of new parallel PIUs"

To avoid confusion, we strongly advise that you use the definition of parallel PIUs given in OECD guidance, by clicking on the link <http://www.oecd.org/dataoecd/13/29/36306366.doc>. DAC criteria for this indicator are being updated to make them easier to use and in January the final version to be used for monitoring the indicators in 2008 will be available on this site.

Finally please note that a separate AIDCO initiative on EU target 2, related to preparing a strategy for achieving the target, is ongoing in 46 Delegations. Through this EAMR however, we hope to capture information from all delegations. Questions 1 and 2 below seek quantitative information on technical cooperation. Section 4 seeks qualitative information from delegations not participating in the survey launched by AIDCO (46 Delegations contacted) and provides the opportunity to share your experience and views.

3. Questions and Definitions

1	How many parallel project implementation units funded by EC were in operation in December 2007? <i>OECD question reference in the Paris survey : Q^d10</i>	3
2	Out of these, how many <u>new</u> parallel project implementation units were established during 2007?	0

4. Additional Information

3	<p>Qualitative information³:</p> <p><i>Are there any significant initiatives to avoid the establishment of parallel PIUs in your country?</i></p> <p>Yes the Harmonisation Task Force of the Development Assistance Group will be looking at practical steps to promote this and ensure that it is measured. The EU's online Blue Book database of projects includes details on use of parallel PIUs so we can measure this in a transparent way.</p> <p>Donors are moving increasingly towards channelling support through multi-donor programmes and funding through Government systems which should ensure a decrease in the number of parallel PIUs. The Development Assistance Group and its Thematic Working Groups are actively encouraging this, as is the Division of Labour Team.</p> <p>On the EC side, the consultants carrying out identification projects for the new NIP will be sensitised to the requirement not to design parallel PIUs into new initiatives.</p> <p><i>What in your opinion should be done to increase domestic ownership and quality of project implementation arrangements?</i></p> <p>More and better consultation with Government at the project design stage including gap analysis of Government systems and examining how in practice to insert TA within Government structures. This means sensitising consultants designing projects for new NIPs in</p>
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³ These questions are taken from the survey on "Developing an EuropeAid Strategy on TC and PIU" sent to delegations which are members of the Aid Effectiveness Network. **They need to be answered by delegations who are not participating in this survey.**

<p>early 2008 to this requirement.</p> <p><i>Please note any other comments you have on these issues</i></p> <p>People need to be sensitised about why parallel PIUs are not wanted, what the definition actually is and to understand the right approach to using TA and how to better integrate it into national structures and systems.</p> <p>One major constraint in Ethiopia is the reluctance of most donors to provide Direct Budget Support, due to concerns on governance. This means that there is a higher tendency than would otherwise be the case to work on programmes where funds are not channelled through Government systems, therefore risking the establishment of parallel PIUs.</p>

1. EU Target No 4			
Reduce the number of uncoordinated missions by 50%.			
2. Introduction			
<p>The aim is to collect data on the number of uncoordinated EC Missions to your country. The information needed is (a) the total number of EC Missions to your country and (b) how many of these were coordinated.</p> <p>The Paris Declaration objectives underlying the related indicator of progress for coordinated missions are: "In planning their missions to the field⁴ it is important that donors: Conduct fewer missions, coordinate timing of missions with partner authorities and, where necessary, with other donors, <i>conduct more joint missions, avoid conducting missions during "mission free periods"</i>⁵.</p> <p>Coordinated mission is a mission undertaken by 2 or more donors jointly, or by one donor on behalf of another. In practice, the following 3 questions help to clarify what is meant by a mission:</p> <ol style="list-style-type: none"> 1. Does the mission involve international travel to a beneficiary country? i.e. this concerns only missions from HQ, not missions undertaken within the country by the Delegation. 2. Does the mission involve a request to meet with government officials, including local government? 3. Is this mission undertaken by 2 or more donors jointly? Or is it done by an HQ service also on behalf of another donor? <p>The Definitions and Guidance of the OECD (www.oecd.org/dataoecd/13/29/36306366.doc) requires that missions undertaken by consultants contracted by AIDCO (or other DG's), if they meet the 3 above questions, must also be included.</p>			
3. Questions and definitions			
OECD	ref: Q^d15	How many HQ missions to the field were undertaken in FY 2007? ⁶	35
	Q^d16	How many of these were	29

⁴ 'Field' refers to the country in general including missions to the capital only.

⁵ The target set for 2010 for indicator 10 a) is to have 40% if donor missions to the field as joint.

⁶ This question applies to the missions from the HQ

	coordinated?	
Please provide a breakdown of missions the Commission and its services have undertaken to your country in FY 2007 in the table below:		
Missions by:	Coordinated	Uncoordinated
Members of Commission	1	0
AIDCO	9	1
DEV	10	1
RELEX	1	1
TRADE	2	0
ECHO	5	2
FISH	0	0
OTHER DGs	1	1
Consultants contracted by the Commission	0	0
Total	29	6

4. Definition of Indicator		
Q^d16 / Q^d15	2006	2007
Please calculate and enter in the column for 2007 and also include the figure for this indicator for 2006 ;	80.00%	82.86%

5. Additional Information			
Delegations are invited to list the dates for main HQ missions already planned for the March 2008 to August 2008, indicating whether they are, or not, to be coordinated with other donors;			
HQ DG	Date planned	Purpose/Sector	Coordinated (Yes/No)
AIDCO	April/May	Preparation of new sector programmes	Yes
AIDCO	April/May	Protection of Basic Services programme review	Yes
AIDCO	May/June	Review of the Productive Safety Nets Programme	Yes
Delegations are suggested to indicate higher priority requests for HQ missions needed from September 2008 to February 2009, but not yet agreed with HQs, that the Delegation estimates serve better the coordination arrangements at local level and can yield more added value for the policy dialogue.			
HQ DG	Date planned	Purpose/Sector	Donor(s) involved
AIDCO/DEV	TBA	A joint mission could be organised around the Joint Annual Review exercise which could be expanded to cover all EU MS cooperation.	
AIDCO/DEV	TBA	A number of missions could be organised concentrating on EU coordination in the Delegation's main sectors of activity in Ethiopia. HQ could coordinate with EU MS at capitals level to organise joint EU missions which would visit a selection of projects funded by EU MS on the ground and examine how to better coordinate them.	
AIDCO/DEV	TBA	HQ could again coordinate with EU MS in Brussels to organise a joint EU mission to examine progress by the EC and EUMS towards meeting the Paris Commitments and/or the Code of Conduct on Division of Labour. This, or an additional high level	

mission, could also cover a joint lobbying effort to GoE to take a stronger lead in the aid effectiveness agenda in Ethiopia.

Delegations are asked to briefly inform if there are significant initiatives to decrease the number of uncoordinated missions in your country? If so, please provide a short description. If not, highlight key constraints.

We are systematically sharing our mission schedules with EU Member States, the World Bank and the UN and asking them to do the same in an effort to identify potential joint missions.

A joint mission implies a shared purpose. Where an HQ mission focuses on checking on EC work only or discussing EC policy with Government, it is unlikely that any other donor will be interested to join. This means that there is a limit to how many of our HQ missions are ever going to be joint, unless we change the nature of the missions. Therefore, to meet this target, it could also be considered at HQ to cut down the number of missions which focus on EC-only business. It should be attempted to introduce subjects of interest for other donors in missions. In the medium term, more joint donor projects, pool funds, etc. will naturally lead to the possibility of more joint missions. Cutting out unnecessary “EC-projects-only” missions and decentralising more control of monitoring and liaison with Government to Delegations would also cut down the number of uncoordinated missions and thus increase progress towards the target.

Finally, Delegations are asked to assess the likelihood of meeting, by 2010, the twin targets for missions, i.e. the OECD target of 40% and the EU target of halving the number of un-coordinated missions.

- | | |
|---|-----|
| - OECD target of 40% likely to be met: | Yes |
| - EU target of halving the number of un-coordinated missions: | Yes |

Delegations are asked to briefly indicate what additional steps HQ should be prepared to consider to help in achieving those targets at the level of the beneficiary country concerned:

Advance notice and flexibility from HQ are paramount - if a mission is not confirmed until a couple of weeks beforehand, it is very unlikely that we will be able to logistically hook up with other donors. In addition, if we go to other donors with a fixed date for a mission that they are interested in joining rather than several alternative dates, we dramatically cut down the chances of them cooperating. Most donor missions are HQ-initiated. Some coordination at HQ would therefore be very useful at the planning stage – e.g. EC HQ talks to counterparts at World Bank HQ and sees where missions could be linked. This stands much more chance of success than a field office trying to persuade their HQ that they should coordinate with another HQ. This view is shared by EU MS representatives who have been contacted in Addis Ababa.

Other aid effectiveness related information

On 4 July 2007 our Counsellors Louis Michel and Benita Ferrero-Waldner wrote to all Heads of Delegations requesting implementation of the Code of Conduct for Division of Labour. Several Delegations have responded and have attached their progress reports on aid effectiveness. We need information on the specific points below:

1. Paragraph 5 of the Council conclusion on Division of Labour notes:

"Simultaneously with the implementation of the Code of Conduct, the Member States and the Commission **will promote wide discussions with partner countries and other donors on complementarity and division of labour**, based on the EU code of Conduct which will be complemented by first experiences in the field. **The outcome of**

these discussions would constitute an input to the OECD/DAC partnership and the High Level Forum on Aid Effectiveness III that will take place in Accra, Ghana in 2008. The Council invites the **incoming Presidencies to actively support such a process**, in close cooperation with the Member States and the Commission." (Highlights by AIDCO 01)

1.1 Have the discussions with partner countries and other donors been held?

(a) If yes, when and what was the result? Please describe in brief how these talks are progressing.

Yes. Result – establishment of a donor-endorsed Division of Labour Team consisting of the Heads of Cooperation of the EC, Irish Aid and USAID. This Team is undertaking research and producing specific plans to introduce division of labour on the ground. The Delegation has been driving this work. The Team website (hosted by the Delegation) describes progress and is available at: http://www.deleth.ec.europa.eu/en/aid_effectiveness/dol.html The next step is the sending out of a donor questionnaire to establish comparative advantages and the roles and criteria for lead donors.

(b) If no, are there plans to hold them? If yes, please describe briefly what the plans are.

1.2 What input on division of labour is planned by the partner country towards HLF III? If none, then leave blank.

The Delegation has made several approaches to Government regarding leadership of the division of labour agenda and a possible presentation in Accra but so far there has been little interest shown. The issue will be raised by the Delegation again at the next meeting of the Government-Donor Harmonisation Task Force. The Delegation is also currently trying to persuade the Government (in cooperation with the OECD) to participate in the 2008 Paris Declaration monitoring exercise.

2 In paragraph 14 the Council invites the Commission to outline Community implementation of the Code of Conduct in its annual report on development cooperation, including: 'a self-assessment in its potential areas of comparative advantage as referred to in the joint Development Policy Statement'. (highlights by AIDCO 01)

2.1 What action has been taken towards this self assessment of comparative advantage?

(a) If yes, please describe the process in brief and the results.

The Delegation has been instrumental in establishing a donor Division of Labour Team and working with this team to design a questionnaire to be sent to all donors to establish comparative advantage. Once this is finalised the Delegation, along with other donors, will complete it. It is believed that we have clear comparative advantages in both the rural development and transport sectors.

(b) If no, do you have any plans for initiating such a process? What are the plans?

3 In country that have already initiated some form of division of labour:

3.1 Please describe the process. (e.g., when did it start; partner country leadership; donors involved; results on the ground, etc).

Working with EU MS: in February 2007, the Delegation made substantial comments to Brussels regarding the final draft of the EU Code on Conduct on Division of Labour (the Code), taking account of EU MS views in Addis. Later in the same month, the Delegation worked with the German EU

Presidency to discuss how to drive forward implementation of the Code. This was followed by the organisation of EU MS Heads of Cooperation and Heads of Mission meetings to discuss the Code. After extensive consultation with EU MS and analysis of existing studies on division of labour, experiences from other countries in Africa and the current situation on the ground in Ethiopia, the Delegation prepared a step-by-step Action Plan for the introduction of division of labour. EU MS embarking on new strategy papers were also sensitised to the importance of incorporating the principles of the Code and the Action Plan in their designs.

Working with Government: in March 2007 the Delegation presented the Code to the Government as well as the EU's plan to make this a central issue for the Development Assistance Group. Following the adoption of the Code, the Delegation wrote to the relevant Government Minister summarising the Code's implications and presenting the EC Action Plan. The Delegation also requested that the topic be raised at a High Level Forum meeting between Government and donors in late 2007 but this was not possible due to other pressing issues. However it should feature on the agenda of the next High Level Forum in early 2008.

Working with other Donors: the Delegation has put forward extensive proposals for reform of the Development Assistance Group with division of labour at the centre, and these have been approved by all donors. The UN, World Bank and the Development Assistance Group were all briefed by the Delegation regarding the Code following its adoption by the EU in May 2007. The Delegation subsequently gained permission from the Development Assistance Group to establish a dedicated Division of Labour Team to make proposals for donor action on this issue. The Team was formed by the Delegation and composed of the Heads of Agencies of the EC, Irish Aid and USAID. The Delegation has worked to catalyse the Team and has surveyed and provided briefs on existing good practice, drafted a list of possible criteria to be used to establish comparative advantage and lead donor roles, designed a questionnaire for donors to establish sectoral preferences, established a series of next actions to be taken and suggested a list of possible challenges and how they might be faced. All of this work can be seen on the Division of Labour Team website set up by the Delegation - http://www.deleth.ec.europa.eu/en/aid_effectiveness/dol.html. In late November 2007 the Team agreed to launch the questionnaire produced by the Delegation in early 2008 and follow the approach suggested for future actions. The Team also endorsed the use of the EU's Blue Book (see below) for mapping donor involvement by sector. In addition to this work, the Action Plans drafted by the Delegation to implement the EC's cooperation agreements with the World Bank and the UN prioritise division of labour in terms of programming, analysis and missions. Finally, the Delegation established a dedicated DAG Thematic Working Group on Transport which includes in its aims the promotion of an efficient division of tasks and responsibilities between donors as well as effective and streamlined coordination with Government - http://www.deleth.ec.europa.eu/en/aid_effectiveness/transport.html. This is intended to become a concrete example of best practice on division of labour that can be imitated in other sectors.

A number of the other tasks completed by the Delegation have also made substantial contributions to division of labour work:

An online Blue Book - <http://www.deleth.ec.europa.eu/bluebook/index.php> - has been established providing a searchable database of all EU programmes in Ethiopia and allowing donors to see where gaps, overlaps and opportunities lie, essential for achieving effective division of labour. The Delegation is currently in talks with non-EU donors regarding the addition of their projects to the system.

An aid effectiveness website - http://www.deleth.ec.europa.eu/en/aid_effectiveness/index.htm - has been created by the Delegation, providing a one-stop-shop for division of labour information, a virtual library of analysis, and details of EU MS sectoral focuses, programming cycles, funding commitments and links to websites and strategy papers.

A matrix summarising the Delegation's upcoming National Indicative Programme, the 'Stripped Down NIP' has produced, along with suggestions for which donors could be partnered with for each programme. This has been circulated to EU MS, the UN and the World Bank.

A brochure on EU interventions in food security has been published by the Delegation, showing how EC and EU MS initiatives in this sector fit together.

Details of all of these initiatives have been sent to the coordinator of the EC Delegations' Aid Effectiveness Network for distribution to other EC Delegations while letters detailing the same have been sent to Brussels in response to Notes enquiring about progress. It should be noted that all of the actions advised by Brussels - information dissemination, obtaining Government buy-in, working with the EU presidency and EU MS to form an action plan for implementation, and examining with other donors how to apply the Code in the partner country – have been undertaken by the Delegation.

3.2 As a result of this process did the Delegation:

- Reduce or expand the sectors in which it remains active?

This should happen in the future once donors have agreed on division of labour plans following the recommendations of the Division of Labour Team.

- Exit from any sectors? Specify

As above.

- Enter any new sectors? Specify

As above.

- Become lead donor in any sectors? Specify

As above, although having established the new DAG Transport Technical Working Group and now acting as its chair, the Delegation is well placed to take a lead in this sector.

- Enter into delegated cooperation partnerships? Please specify.

The Delegation is planning to make contributions to the following multi-donor programmes in the upcoming NIP, which are effectively delegated cooperation arrangements: Road Sector Development Programme (200m), Productive Safety Nets Programme (100m), Protection of Basic Services Programme (100m), Engineering Capacity Building Programme (30m), Democratic Institutions Programme (14m), Public Sector Capacity Building Programme (15m).

