

# **African Development Fund**



**ADF/OPEV/2006/04**  
**April 2006**  
**Prepared by: OPEV**  
**Original : ENGLISH**  
**Distribution: LIMITED**

## **ETHIOPIA**

### **JOINT ASSISTANCE STRATEGY**

### **REVIEW OF THE HARMONIZATION PROCESS IN FIVE COUNTRIES**

**OPEV WORKING DOCUMENT\*\***

### **OPERATIONS EVALUATION DEPARTMENT**

\*\*The findings, interpretations and conclusions expressed in this report are those of the authors and do not necessarily reflect the views of the Board of Executive Directors of the African Development Bank Group or its Regional Member Countries.

## TABLE OF CONTENTS

	<u>Page N°.</u>
Abbreviations and Acronyms	i
Executive Summary .....	ii
1. INTRODUCTION .....	1
1.1 Background	1
1.2 Objectives and Review Questions	1
1.3 Data Sources and Review Method	2
2. HARMONIZATION AND JOINT BUDGET SUPPORT PROCESS.....	3
2.1 Overview of the Harmonization Process in Ethiopia.....	3
2.2 The Joint Direct Budget Support (JDBS) Process	4
3. THE JOINT DIRECT BUDGET SUPPORT PORCESS: RELEVANCE AND EFFECTIVENESS .....	5
3.1 Relevance of the JDBS Process	5
3.2 Effectiveness of the JDBS Process	6
4. BANK GROUP'S ROLE IN THE JDBS PROCESS .....	9
5. IMPLICATIONS OF THE JDBS PROCESS	11
5.1 Institutional Implications	11
5.2 Risk Implications	11
6. KEY FINDINGS AND RECOMMENDATIONS .....	12
6.1 Key Findings.....	12
6.2 Key Recommendations .....	13

<b>Annexes</b>	<b><u>N°. of Pages</u></b>
Annex 1. List of People and Organization with whom Discussions were held	2
Annex 2. Ethiopia: Assessment Criteria and Ratings on Harmonization Process (EHAP)	5
 <b>Bibliography</b>	 <b>1</b>

---

This Working Document was prepared by Mr. Foday TURAY, Principal Evaluation Officer, Operations Evaluation Department (OPEV), as an input to a five-country review of Donor Harmonization and Joint Assistance in East and Southern Africa. Any further matters relating to this Report may be addressed to Mr. D. A. BARNETT, Acting Director of OPEV, extension 2041 or Mr. F. TURAY, extension 3257.

## ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
DAG	Development Assistance Group
DAG-TWG	Development Assistance Thematic/Technical Working Group
DP	Development Partners
ESW	Economic and sector work
GoE	Government of Ethiopia
JAS	Joint Assistance Strategy
JDBS	Joint Direct Budget Support
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MDG	Millennium Development Goals
MFECD	Ministry of Finance and Economic Development
MoU	Memorandum of Understanding
OECD	Organization for Economic Cooperation and Development
OPEV	Operations Evaluation Development
SDPRP	Sustainable Development and Poverty Reduction Strategy
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	The World Bank

## Executive Summary

1. **Introduction:** Ethiopia is large recipient of both external development and humanitarian assistance in Sub-Saharan Africa from a multitude of multilateral and bilateral agencies most often with diverse delivery rules and procedures. The Government of Ethiopia (GoE), recognizing the importance of harmonization in improving development effectiveness, has not only endorsed the Millennium Development Goals (MDGs) and the Rome and Paris declarations on harmonization, but also prepared and submitted its harmonization agenda (2004-2006) to its development partners for discussions.
2. This review, on Ethiopia, is part of a five-country study of the role of the Bank Group (ADB) in Joint Assistance Strategies (JAS)/harmonization processes (HP) –a request of the Bank Group’s Board of Directors (Board). It aims at generating pertinent information for informing the Board on the JAS/HP and ongoing and future relevant processes in the RMCs. As Ethiopia had no JAS process, the review assesses the role of the ADB in the harmonization process focusing on the Joint Direct Budget Support (JDBS) Process. The JDBS process is the driver, as well as one of the key expected outcomes of the harmonization process in the country. The JDBS process is centred on the budget support instrument which delivered about a third of the ADB assistance to Ethiopia in 2002-2004 programming period.
3. The review uses a desk review and field data collection through discussions with selected ADB staff and opinion interviews of selected key stakeholders of the process on relevance, effectiveness and implications of the process. It also relies on selected criteria of the OPEV evaluation framework (relevance; effectiveness) for the assessment.
4. **Key Findings:** The JDBS process, as well as the overall harmonization process made substantial progress but lost some of it by the end of 2005 as a result of the political crisis that followed the 2005 general elections.
5. The JDBS process even in the absence of a formal MoU has substantially contributed to the harmonization agenda in Ethiopia. However some of its expected key benefits such as the reduction in the overall transaction costs of the GoE are not immediately evident and will take time to be realized.
6. Donors and GoE perceive, in general, the JDBS process to be consistent with their respective development and harmonization agenda, and to add substantial value in providing a common dialogue framework, relevant development assistance information and contributing to the use of country systems and reducing some transaction costs associated with the delivery of development assistance.
7. The JDBS process is effective but is staff time-and other resource-intensive for both GoE and donors. The process is most effective in supporting the donor country assistance program (anchored in the national poverty reduction strategy), harmonization, donor alignment with country systems but less so in improving the predictability of resource flows and inter-government department coordination; addressing the issues of governance, gender and environment; and in identifying donor comparative advantage.
8. The extent of participation of the ADB in the JDBS process is unsatisfactory mainly because of its limited preparedness for and contribution to the process. The ADB preparation for the process was mainly limited to the country assistance strategy paper and issues paper,

whereas other donors invested in additional activities including ESW, risk analysis and review of their administrative procedures. The ADB's contribution was also limited in scope and effectiveness. It only provided staff time and in an insufficient quantity. And the ADB staff time was thinly spread with little effect.

9. **Recommendations:** The ADB could further contribute to moving forward the harmonization agenda in general and the JDBS process in particular in Ethiopia by:

- Extending its contribution beyond staff time; strengthening the field office with appropriate staff, decision-making authority and other resources for effective engagement in the process
- Using the experience from the JDBS process to promote harmonization actions in the other DAG thematic/technical working groups, as well as to experiment other assistance delivery instruments given the risk associated with the development budget support
- Supporting the improvement of the national M & E systems
- Encouraging the GoE to actively involve sector and regional authorities in the process, and to resolve the political crisis

## **1. Introduction**

### **1.1 Background**

1.1.1 Ethiopia is large recipient of both external development and humanitarian assistance in Sub-Saharan Africa from a multitude of multilateral and bilateral agencies most often with diverse delivery rules and procedures. From 1993 to 2004, the country received a net external assistance of US\$12034.14 million – the highest per country in the region during the period. This assistance came from more than 30 external organizations including the African Development Bank Group (ADB), which was the fifth largest provider of funds to the country in 1993-2004.

1.1.2 The Government of Ethiopia (GoE) recognizes the importance of harmonization for improving the effectiveness of both domestic and external development assistance. Towards harmonization, the GoE has taken measures of which include the adoption of a national development framework through its Sustainable Development and Poverty Reduction Strategy (SDPRP) and endorsement of the Millennium Development Goals (MDGs) and the Rome and Paris declarations on harmonization, as well as leading the preparation of its harmonization agenda (2004-2006). The GoE has also participated in the regional harmonization forum –a follow-up to the Paris declaration which was jointly organized by the World Bank, ADB and other development partners.

1.1.3 The ADB also fully endorses the internationally agreed harmonization principles and actively supports harmonization in its Regional Member Countries (RMCs). The ADB has a harmonization action plan, approved by its Board of Directors (the Board), and is under implementation.

1.1.4 Given the importance that the ADB Board attaches to harmonization in the RMCs, the Board asked, in quarter four of 2005, the Operations Evaluation Department (OPEV) of the ADB to undertake a review of the role of the ADB in Joint Assistance Strategies (JAS)/Harmonization Processes, specifically focusing on countries presented in the ADB document “CSP/Joint Assistance Strategies (JAS): Implications for Processing the Bank Group Lending Program (ADF/BD/WP/2005/128). The overall objective of the review was to generate pertinent information for the Board and to inform ongoing and future relevant processes in the RMC. The ADF/BD/WP/2005/128 document only covered four countries; Ethiopia, Mozambique, Tanzania and Uganda. Tanzania and Uganda had JAS processes in place, and the other two countries had none but only processes for Joint Direct Budget Support (JDBS). Zambia, with a relatively less advanced JAS process, was included in order to improve the scope of the review. The coverage of both JAS and non-countries in the review was meant to provide a basis for comparison.

1.1.5 This review assesses the role of the ADB in the JDBS process in Ethiopia within the context of the country’s ongoing harmonization process.

### **1.2 Objectives and Review Questions:**

#### **1.2.1 Review Objectives**

1.2.1.1 The purpose of this review is to provide the ADB Board an independent view on the role of the ADB in the JDBS process. This review will specifically:

- Assess (i) the relevance and effectiveness of the JDBS process and (ii) the effectiveness of the ADB participation in the JDBS; and (iii) the implications of the JDBS process for the ADB, government and other development partners); and
- Draw lessons for improving ADB participation in the JDBS process

### 1.2.2 Key review questions:

What is the status of the harmonization process?

What is the extent of the relevance and effectiveness of the JDBS process?

- What is the relevance of the process?
- What is the effectiveness of the process?
- What factors influence the effectiveness of the process?

What is the extent of the ADB participation in the JDBS process?

- What is the extent of preparedness and readiness of the ADB for participation in the process?
- What is ADB contributing to the process?
- What is the effectiveness of the ADB's contribution to the process?
- What factors influence the effectiveness of the ADB's contribution to the process?

What are the key implications of the JDBS process for the ADB, other development partners and Government?

- What are the institutional implications?
- What are the risk implications?

## 1.3 Data Sources and Review Method

1.3.1 The approach comprises a desk review and field data collection in Ethiopia to provide the basis for evaluative evidence.

1.3.2 The review uses the following methods to generate the necessary data:

- Discussions with selected ADB staff (country economists, Country office, POPR)
- Opinion interviews on relevance, effectiveness and implications of the JDBS process, using semi-structured questionnaires, with representatives of:
  - The Government (Multi-lateral Cooperation Department, Ministry of Finance and Economic Development; Planning and Programming Departments of the Ethiopian Roads Authority and of the Ministry of Agriculture and rural Development).
  - Seven of the 8 active donors in the JDBS group (ADB (country office), Canada (CIDA), European Commission (EC), Germany (kfw); United Kingdom (DFID), Sweden (SIDA) and World Bank).

- Five non-JDBS group donors including observers in the JDBS group (Netherlands, Japan (JICA), Italy, UNDP, USA (USAID)). The questionnaire was also sent to an additional two donors but no positive response was obtained.
- ADB country economist for Ethiopia.
- A desk review of relevant documents obtained from the Bank, internet and during the field data collection mission

1.3.3 The data collection, including the field mission to Ethiopia in December 2005, was in December 2005-January 2006. The Agencies interviewed for the perception survey were purposively selected on the basis of their accessibility.

1.3.4 The review uses selected criteria of the OPEV evaluation framework (relevance; effectiveness) to make evaluation judgments.

## **2. Harmonization and Joint Budget Support Process**

This chapter will present the harmonization process, followed by the JDBS process.

### **2.1 Overview of the Harmonization Process in Ethiopia**

2.1.1 Adopted in 2002 by all stakeholders, the Ethiopian national poverty reduction strategy (2002-2005) – Sustainable Development and Poverty Reduction Strategy (SDPRP) - provided the development framework for the increased commitment of the GoE in harmonization. In the same year, the GoE, in close collaboration with its Development Partners (DP), developed a comprehensive framework for harmonizing assistance and also formed the joint GoE-DP Task Force on harmonization.

2.1.2 The GoE, in 2004, presented a joint GoE-Donor harmonization action plan to donors during the third High-Level GoE-Donor forum. The discussion of the draft harmonization action plan continued in 2005 with the expectation of launching it in the same year. Proposed in the action plan was inter-alia, the GoE's preference for 75% of aid delivery through direct budget support. A joint declaration on harmonization, alignment and aid effectiveness was also presented to donors. However, the GoE-DP discussions of the draft joint harmonization action plan declaration were put on hold because of the political crisis that immediately followed the 2005 general elections. As result, neither the harmonization action plan nor the harmonization declaration has been adopted.

2.1.3 Donor harmonization has been ongoing ever before the GoE's launching of harmonization agenda mainly through Development Assistance group (DAG) and supported to a certain extent by the Ambassador's Group (AG). The DAG, co-chaired by the UNDP and World Bank, deals with development and policy issues, and the AG focuses on political issues. Over 30 bilateral and multilateral agencies are represented in the DAG, under which there is a DAG Core Group (DAG-CG). The DAG-CG is made up of 17 bilateral and multilateral agencies who meet on a weekly basis. Fourteen of these agencies have signed an MOU with the GoE. To facilitate its effectiveness, the DAG created a number of

Technical/Thematic Working Groups (DAG-TWG) to deal with critical sector and thematic issues. These GAG-TWGs include that on Joint Development Budget Support (JDBS).

2.1.4 The DAG and AG are the main channels of discussions among donors, as well as between donors and GoE. The DAG-TWGs also work with the appropriate government agencies/department. For instance, the DAG-TWG on DBS works mostly with the Ministry of Finance and Economic Development.

2.1.5 The harmonization process in Ethiopia is Government-led and has so far resulted to (i) A comprehensive and improved GoE-Donor coordination framework; (ii) Joint GoE-Donor Harmonization Task Force; (iii) Common framework for joint budget support; (iv) Harmonization action plan (2004-2006).

2.1.6 In sum, the harmonization gained a lot of momentum in 2004 but lost a considerable amount of it by the end of 2005 mainly due to the political crisis that followed the 2005 general elections.

## **2.2 The Joint Direct Budget Support (JDBS) Process**

2.2.1 Ethiopia receives both project and budget support aid. Although the former is dominant, the latter form of aid –the preferred instrument of GoE for aid delivery- is increasingly gaining importance<sup>1</sup>.

2.2.2 Ethiopia was one of the three pilot countries under the International Monetary Fund's (IMF) 2004 project for establishing a conceptual framework for aligning budget support with the implementation of the national poverty reduction strategy (SDPRP).

2.2.3 The World Bank and a few DP started using the JDBS in 2002/03, and the ADB joined the group in 2004. By the end of 2005, there were eight JDBS donors comprising ADB, Canada (CIDA), European Commission, (Kfw), Ireland, Germany, Sweden, United Kingdom (DFID) and World Bank<sup>2</sup>. All the JDBS donors are active DAG and AG members, and also represented in other thematic working groups of the DAG including privatization, rural economic development/food security, education and water.

2.2.4 The JDBS Group holds monthly discussions, and also with the GoE represented by the Ministry of Finance and Economic Development. To formalize and clearly define roles in the process, a draft MoU is being discussed.

2.2.5 The JDBS is expected by GoE to be one of the key outcomes of the harmonization process. This process is mainly driven by the GoE demand and harmonization declarations (including those made in Rome and Paris). The most significant progress in harmonization so far is around the direct development budget support. This process is meant to improve policy dialogue within the JDBS group and with GoE for enhanced aid effectiveness.

2.2.6 In 2004/2005, the JDBS process not only delivered development assistance to the country, but also produced joint activities including missions and intensive policy dialogue

---

<sup>1</sup> Budget support replaces adjustment support which was directed to balance of Payment.

<sup>2</sup> Non-budget support donors, including Italy, JICA USAID and the Netherlands, participate in the JDBS as observers, and this facilitates co-operation between this group and the budget support group.

with the GoE. However, the failure of the GoE to satisfactorily manage the political crisis in 2005 led the JDDBS donors to collectively suspend the delivery of their assistance through budget support. Notwithstanding the political crisis, the process continued to keep the harmonization agenda active mainly focusing on dialogue.

### **3. The Joint Direct Budget Support Process; Relevance and Effectiveness**

This chapter assesses the relevance and effectiveness of the JDDBS process.

#### **3.1 Relevance of the JDDBS Process**

3.1.1 This section assesses the JDDBS process in terms of its relevance to (i) harmonization agenda and country assistance strategies/programs; (ii) provision of a common framework; (iii) improving accountability and transparency; (iv) improving use of country systems; (v) transaction cost reduction.

3.1.2 **Consistency with GoE harmonization Agenda and DP country assistance strategies/programs:** The JDDBS process is a key expected milestone of the GoE's harmonization agenda in particular and the aid effectiveness in general. There are numerous donors operating in Ethiopia with different rules and procedures for delivering assistance to the country. The acceptance by some of the donors to deliver part of their assistance through direct budget support is considered especially by the GoE to be in line with its harmonization agenda and SDPRP.

3.1.3 The process and its instruments are part of the mechanisms in the country strategies/programs of each of the JDDBS donors for delivering development assistance to the country. This is, however, not the case for the non-JDDBS donors; some like the USA their national laws and regulations are not consistent with the DBS instrument. Others like Italy, not yet in the process, are considering using the DBS instrument to deliver part of their assistance. Consequently, the process is consistent with the DBS donor country assistance strategies/programs but not for some of those of the non-DBS donors.

3.1.4 **Provision of a common framework:** The JDDBS process is useful process, as it provides a common framework (conditionalities; performance indicators) for policy dialogue, planning, delivering, monitoring and tracking the performance of the development assistance. This framework guides and allows effective discussions among JDDBS donors, as well as enables them to present common positions and evaluation framework when dialoguing with the GoE.

3.1.5 Donors interviewed consider the value added by the JDDBS process, in terms of the common framework, to be substantial but the GoE rated it modest. The GoE is yet to see an overall decline in its transaction costs, and thus reflected this in its rating of the value added of the process (see section 3.2 for more details).

3.1.6 **Improving accountability and transparency through information sharing:** The process generates relevant information on the performance of the development assistance through joint and individual activities. The GoE systems are the sources of the information, which informs the discussions within the group as well with the government. As the JDDBS Thematic Working Group reports to the DAG, coupled with the presence of non-budget

support providers in the JDBS discussions as observers, this facilitates the sharing of information among donors. This information also provides the basis for the JDBS group to account to their respective constituencies.

3.1.7 All JDBS-donors interviewed consider the JDBS process not only to be satisfactory but also to have a substantial value added with the regards the sharing of relevant information.

3.1.8 **Improving use of country systems:** The JDBS process depends on data from the existing GoE systems. The performance of these systems, in terms of generating reliable and timely data, is however limited by the weak public sector capacity. Both the GoE and donors are addressing the issue of the weak capacity of the public sector.

3.1.9 **Partial reduction of some transaction costs:** The number of field development support missions dropped considerably -1 in 2005 compared to 8 in the previous period. This reduced substantially the time spent by the GoE in coordinating missions. However, the overall GoE transaction costs increased significantly during the initial period of the JDBS process (see section 3.2 for more details).

## 3.2 Effectiveness of the JDBS Process

3.2.1 This section mainly assesses the effectiveness of the JDBS process on (i) planning, delivery and monitoring development assistance; (ii) harmonization; (iii) predictability of donor resource flows; (iv) staff time and other costs.

3.2.2 The JDBS depends on a process that requires effective management and coordination. All donors and the GoE agree that the JDBS represents a substantial departure from the individual donor budget support/policy-based lending/adjustment lending. The process associated with the JDBS is more engaging and demanding in resource use. As a result, both the JDBS donors and GoE interviewed reveal undertaking substantial preparation before engaging in the process.

3.2.3 The JDBS is principally expected to contribute to effective aid planning, delivery, monitoring and reporting, harmonization and predictability of external flows to the country.

3.2.4 **Effectiveness in planning, delivery, monitoring and reporting:** Donors and GoE interviewed consider the JDBS process to be relatively effective in delivering development assistance mainly because of the reduced number of tranche disbursements. In the 2002-2004 programming, the ADB had only one tranche disbursement, while most other donors had two. As for the GoE, the JDBS process is the preferred option given the relative low number of conditionalites for the access and use of the assistance. The JDBS is relatively quick disbursing and also provides the GoE a high degree of flexibility in the use of the assistance. Donors and GoE also perceive the process to contribute substantially to:

- Effectiveness of donor's country assistance strategies/programs
- Addressing national poverty reduction and MDG priorities; the process is consistent with the SDPRP and supports GoE leadership of the harmonization process.
- Use of national data generating and reporting systems

3.2.5 The process is, however, considered to provide modest contribution to:

- Inter-government department coordination; the process on the government side is entirely led and control by the Ministry of Finance and Economic Development. Discussions with representatives of two of the GoE sector agencies reveal their awareness of the process but lack of contribution into it.
- Governance, gender and environmental issues; while economic governance is adequately taken into account, political governance is not, although the process is not gender and environmental neutral, it neglects these two cross-cutting issues.
- Identifying donor comparative advantage.

3.2.6 **Improving harmonization:** The contribution of the JDBS process to harmonization is rated substantial by both the donors and GoE. This is mainly because the process provides a framework with common conditions and performance indicators and for information sharing (see section 3.1). Compared to the previous situation, the number of conditions is reduced, but they are still too high according to the GoE.

3.2.7 The process is however challenged by the JDBS group's lack of formal MoU, high resource-intensive nature of the process and weak public capacity, and limited participation of certain stakeholders.

3.2.8 There is a draft JDBS MoU under discussion but the lack of a formal one makes it difficult for some JDBS members to assume certain roles and responsibilities, and hence to have a fair division of labor among members. Consequently the distribution of the JDBS activities tends to be skewed towards certain members.

3.2.9 The JDBS process is resource-intensive for both the donors and GoE in the short-run. The weak public capacity further worsens the situation, and thereby limiting the GoE contribution to the process. But in the long-run, the demand on GoE resources is expected to drop and that on the JDBS members might increase. For maintaining the effectiveness of the process, donors will have to provide extra resources for the process. The possibility of creating of a secretariat for the process is already being discussed among JDBS donors.

3.2.10 The GoE is solely represented in the process by the Ministry of Finance and Economic Development. Some GoE sector ministries/departments participate in discussions of certain DAG-TWGs, but this is not sufficient for their active involvement in the JDBS process. As the output of the JDBS process -budget support- has implications for both central, sector and regional development activities, effectiveness communication with the sector and regional authorities (if their direct participation is not feasible) can not be overemphasized.

3.2.11 With regards donor harmonization, it is limited to the JDBS group which is small relative to the overall number of development partners of the GoE. Furthermore, JDBS donor observer members are involved to a certain extent in JDBS discussions but not in the GoE-JDBS member dialogue. As the GoE prefers JDBS, it tends to deal exclusively with the JDBS donors in policy dialogue. The JDBS observer members, being part of the overall development process in the country, would like to participate directly in JDBS policy dialogue with the GoE, but they are not allowed to do so. A challenge for the JDBS process is

maintaining its effectiveness while continuing to (i) keep the JDBS process observers on board and (ii) influence the other DAG-TWGs to follow its lead in harmonization.

**3.2.12 Improving predictability of JDBS donor resource flows:** The process is expected to lead to improved predictability of donor resource flows into the country. Improvement in predictability of donor resource flows is, however, modest, as revealed by the interviews with the GoE and donors. A key determinant of this, is the political crisis that following the elections of 2005. The political crisis, following the general elections of 2005, considerably reduced the predictability of donor funding. Disapproved of the GoE management of the 2005 political crisis, the JDBS donors suspended JDBS disbursements. The GoE - JDBS donor dialogue, however, continued. This is indicative of the high level of risk that a country could face when a significant portion of the external development assistance is loaded onto one process and its instrument. In effect, the donors and governments do not seem to have the same understanding of the key factors that govern predictability of funding such as political governance and donor resource allocation cycles.

**3.2.13 Staff time and cost requirements:** Although the JDBS process is considered effective, compared to previous policy-based/ adjustment support it has additional requirements in time, staff and other resources. These requirements translate into higher administrative and coordination costs for the GoE, as well as for the JDBS donors. Some of the additional resources are used in preparing for and learning to implementing and adapting the process.

**3.2.14** Both GoE and donor representatives interviewed perceive the process to be substantially demanding in terms of time and staff resources compared to previous policy-based/ adjustment support. Most of the donors have to allocate additional staff time ranging from 5% to 50% and to incur extra administrative and coordination costs in the range of 25-50%. In the case of the Bank, the extra staff time allocated to the process is in excess of 50%. Also the GoE and donors will have to invest additional resources in rebuilding the confidence as a result of the 2005 political crisis.

**3.2.15** Contrary to the perceptions of the donors interviewed, the overall transaction costs of GoE substantially increased. The GoE put the extra staff time and transaction costs in the region of 25-50%, used mainly in data generation, reporting and meetings, as well as in learning the process. The number of donor missions dropped substantially, but the frequency of meetings and demand for quality and timely information substantially increased.

**3.2.16** In the long-run, the process is likely to reduce overall transaction costs for the GoE as well as the Donors as a result of:

- Maturity of the JDBS mechanisms including dialogue;
- Reduction in conditions/policy triggers;
- Improved public sector M & E systems;
- Complete alignment of donors operations with GoE planning and budget cycles;
- Respect of agreed resource flow schedule.

**3.2.17** However, JDBS donors might have to invest more on certain cost items including coordination and specialized expertise.

#### 4. Bank Group's Role in the Joint Direct Budget Support Process

This section assesses the ADB's role in the JDBS process in terms of the extent of (i) preparedness and readiness for and (ii) participation in the process.

4.1 **Extent of the ADB's preparedness and readiness for the process:** The Bank's preparation and readiness for the JDBS process is substantial but compares less favourably with that of most of the other JDBS members. The ADB's preparedness is limited to the basics of having a country assistance strategy paper (CSP), issues paper and identifying its comparative advantage. The other JDBS donors, apart from possessing the basic JDBS process items; they also invested in other activities including ESW, risk analysis and in aligning their administrative procedures.

4.2 For the GoE, the adopted national poverty reduction strategy (SDPRP), which anchors the donor country assistance strategies/programs and the framework for the development budget support, is the basic document.

4.3 The discussions with donors and GoE reveal the key factors facilitating the preparedness and readiness for the JDBS process as follows:

- Strong belief and commitment to the Paris declaration by both donors and GoE, as well their openness and willingness to dialogue.
- Strong GoE commitment to reducing poverty and sound macroeconomic framework, as is evident in its focus on national poverty reduction strategy and good track record in macroeconomic management.
- Presence of the country/field office with the appropriate staff mix and decision-making authority.
- Accessibility of analytical works and experience in PBLs.

4.4 The key factors limiting preparedness for the process comprise:

- Availability of appropriate staff and additional resources for effective engagement in the process; some donors use the services of some of their sector staff in support of their task managers for the JDBS process.
- Weak public sector capacity and M&E system for tracking progress.
- Uncertainty relating limited human rights and potential border conflict with Eritrea.

4.5 **Extent of participation of the ADB in the JDBS process:** The ADB's participation in the JDBS process is generally perceived to be unsatisfactory, mainly as a result of its contribution which is limited in scope and effectiveness

4.6 **Scope of contribution:** The Bank only provided staff time to the process, and relatively to other JDBS donors, it was small. The other JDBS members, in addition to their staff time, they supplied inputs such as facilities and analytical works to the extent that some

of them hosted and facilitated discussion meetings. Given the limited ADB staff available for the JDBS process, it was only used in discussion meetings, review missions, and drafting joint aid memoirs, reports and reviewing draft reports. This represented a relatively wide spread in the use of the available ADB staff time. In the case of most of the other JDBS members, they not only provided a wider scope of activities including analytical works, coordination, concept paper, due diligence review and follow-up of agreed actions, but also the extent of their involvement was highly substantial.

**4.7 Effectiveness of contribution:** The ADB is the fifth most important supplier of assistance to Ethiopia in 1993-2004. The JDBS accounts for about a third of total ADB assistance to the country in the 2002-2004 programming period. Notwithstanding this importance of the ADB, the extent of its participation in the JDBS process is considered unsatisfactory.

**4.8** Two ADB staff –one field- and another HQ-based- provided services to the JDBS process. However, participation in the JDBS process was not one of their principal tasks, and had relatively insufficient time for the process. The other JDBS donors had at least one full-time field-based economist and with HQ support for the process.

**4.9** Most of the ADB contribution was considered timely. There were, however, considerable delays in getting feedback and commitment in collective decision-making from the ADB, largely due to the lack of decision-making authority of the ADB representatives in the process.

**4.10** The available ADB staff time was thinly spread in order to cope with some of the demand of the process, thus reducing its effectiveness. Also the ADB failed to make use of pertinent experiences gained in other RMCs to inform the JDBS process.

**4.11** The ADB staff interviewed cited the key factors that facilitated the Bank's participation in the JDBS process as follows:

- High degree of GoE and donor commitment to harmonization and the JDBS process;
- Presence of effective dialogue architecture;
- Experience in policy-based/structural adjustment lending.

**4.12** In addition to the above factors, other donors mentioned an empowered country/field office with the appropriate staff capacity and continuous back-up from their HQs as key for effective participation in the JDBS process.

**4.13** Access to quality information on a timely basis for the M & E function of the process was one of the key limiting factors to participation cited by the ADB and other donors. As already previously mentioned, the public sector capacity is weak in generating the data required for the process on a timely basis.

## 5. Implications of the JDBS Process

The process has both institutional and risk implications.

### 5.1 Institutional Implications

5.1.1 The implied institutional behavioral changes concern (i) information sharing for improved accountability and transparency in the delivery of development assistance; (ii) use of national systems for the M & E function; (iii) donor field/country presence; and (iv) alignment of donor rules and procedures.

5.1.2 **Better information sharing for improved accountability and transparency in the delivery of development assistance:** The process provides the opportunity not only for sharing information through meetings and joint reviews but also to improve the quality and timeliness of the information. As all the JDBS members depend on such information for monitoring the performance of the assistance, as well as for reporting back to their various constituencies, more effort is needed to improve its quality and timeliness.

5.1.3 **Trusted and reliable national systems for the M & E function:** The national systems are providing with some deficiencies M &E information for the JDBS process. For the usefulness and sustainability of this function of the national systems, they need to be continuously improved so that donors will continue to trust and rely on them.

5.1.4 **Effective donor field/country presence with the appropriate resource mix and authority:** Most of the JDBS donors, excluding the ADB, have to a certain degree satisfactorily addressed their staffing problem and the question of authority at the field level.

5.1.5 **Better alignment of donor rules and procedures for further reduction of transaction costs;** The JDBS member have made substantial progress in reporting but not in aligning procurement rules and procedures especially in the case of the ADB.

### 5.2 Risk Implications

5.2.1 The main risks associated with the process comprise the following:

- Political crisis; this is already evidence following the general elections of 2005 leading the suspension of the delivery of the assistance through the JDBS instrument. As a result, predictability of resource flows is negatively affected.
- Reduced individual donor influence and loss of identity of individual assistance; although the influence of JDBS donor members might be collectively strong, some donor constituencies might reduce support for the loss of individual influence.
- Fiduciary risk, resulting mainly from the weakness of the national systems to generate reliable and timely information.

## **6. Key Findings and Recommendations**

### **6.1 Key Findings**

The key findings emerging from the review comprise the following:

- (i) The JDBS process, as well as the harmonization agenda, gained a lot of momentum in 2004 but lost a substantial part of it by the end of 2005 due to the political crisis that followed the 2005 general elections. The unresolved political crisis, notwithstanding, the JDBS process continued to keep the harmonization agenda active by focusing on dialogue. The emerging slow pace of the JDBS process provides an opportunity for the ADB to increase its space in the process.
- (ii) The JDBS process is time- and resource-intensive for both the GoE and donors. As a result, GoE as well as donors require adequate and appropriate capacity (including authority) for their effective participation in the process.
- (iii) Donors and GoE perceive, in general, the JDBS process to be consistent with their respective development and harmonization agenda, and to add substantial value in providing a common dialogue framework, relevant development assistance information and contributing to the use of country systems and reducing some transaction costs associated with the delivery of development assistance.
- (iv) The JDBS process, even in the absence of a formal MoU, has substantially contributed to the harmonization agenda in Ethiopia. However some of its expected key benefits such as the reduction in the overall transaction costs of the GoE are not immediately evident and will take time to be realized.
- (v) The JDBS process is effective, mostly in supporting the donor country assistance program (anchored in the national poverty reduction strategy), harmonization, donor alignment with country systems but less so in improving the predictability of resource flows and inter-government department coordination; addressing the issues of governance, gender and environment; and in identifying donor comparative advantage.
- (vi) The JDBS process carries a considerable amount of risk, especially political, which negatively affects the predictability of the flows of donor resources and leading to suspension. This obviously affects the delivery of GoE development programs and their effectiveness. The GoE has a preference for the process but it should also take into account of its associated risk.
- (vii) The extent of participation of the ADB in the JDBS process is unsatisfactory mainly because of its limited preparedness for and contribution to the process. The ADB preparation for the process was mainly limited to the country assistance strategy paper and issues paper, whereas other donors invested in additional activities including ESW, risk analysis and review of their administrative procedures. The ADB's contribution was also limited in scope and effectiveness. It only provided staff time and in insufficient quantity. And the ADB staff time was thinly spread with little effect.

## 6.2 Recommendations

The ADB could further contribute to moving forward the harmonization agenda in general and the JDDBS process in particular in Ethiopia by:

- Extending its contribution beyond staff time; strengthening the field office with appropriate staff, decision-making authority and other resources for effective engagement in the process.
- Using the experience from the JDDBS process to promote harmonization actions in the other DAG thematic/technical working groups, as well as to experiment other assistance delivery instruments given the risk associated with the joint development budget support.
- Supporting the improvement of the national M & E systems.
- Encouraging the GoE to actively involve sector and regional authorities in the process, and to resolve the political crisis.

**LIST OF PEOPLE AND ORGANIZATION WITH WHOM DISCUSSIONS WERE HELD**

**AfDB**

- T. Seya, Rep. ETCO
- G. Namakando, Economist
- E. Alemseged, Sector Specialist
- H. Hailemeskel, Sector Specialist
- G. Woldetsadik, Sector Specialist

**World Bank**

- Herbert Aquay, Senior Operations Officer

**DFID**

- Paul Ackroyd, Head
- Anthony Way, Deputy Head

**CIDA**

- Marc Andre Fredette, Director
- Xavier Furado, Economist/First Secretary

**German Development Cooperation**

- Hein Winnubst, Head/First Secretary
- Helmut Knechtel, Economist, Kfw

**SIDA**

- Ingrid Lofstrom Berg, Counsellor, Dev. Cooperation

**Italian Development Cooperation**

- Andrea Senatori, Director

**JICA**

- Kimiaki JIN, Deputy Resident Representative

**Netherlands Embassy**

- Antoinette Gosses, Head Development Cooperation

**USAID**

- B. Hammink, Director
- D. Buckle

**UNDP**

- Susanne Dam-Hansen, Programme Manager

**Ministry of Finance and Economic Development (MoFED)**

- Fisseha Aberra, Head, MCD
- Dejene Demissie, Head International Finance Division
- Kokeb Misrak, Senior Expert
- Admasu Nebebe, UN Team Leader

**Ethiopian Roads Authority (ERA)**

- Bekele Negussie, Manger, Planning & Programming Division, ERA

**Ministry of Agriculture & Rural Development**

- Aster Stephanos, Head, Planning & Programming Department,

## **Ethiopia: Assessment Criteria and Ratings on Harmonization Process (EHAP)**

### **Assessment Criteria 1**

Relevance of the process with Bank strategies & accepted alignment and harmonization principles

#### Sub-Criteria

#### **Alignment of Bank intervention with Government PRSP: Rating; highly relevant**

The national poverty reduction strategy paper –Sustainable Development and Poverty Reduction Strategy Program, 2002-2005, (SDPRP) - provides the framework for the EHAP and the Bank's 2002-2004 CSP. This CSP focuses on three of the key critical poverty reduction pillars of the SDPRP. And the Bank is an active participant in the EHAP whose overall objective is to enhance the effectiveness of the development assistance to Ethiopia through effective harmonization and alignment of DP's practices and procedures to those of the Government of Ethiopia (GoE).

Alignment is therefore rated highly relevant.

#### **Focus on outcomes and measuring of results: Rating; highly relevant**

The Ethiopia draft Harmonization Action (2004-2006) and Joint Declaration on Harmonization, Alignment and Aid Effectiveness (EHaJD) reflect the principles of the 2003 Rome and 2005 Paris declarations (RPDs) to the extent that they adapted the RPD targets and indicators. The RPDs are results-focused.

#### **Simplifying of existing procedures: Rating; highly relevant**

All DPs endorse the RPDs. The draft EHaJD considers effective harmonization of DP processes and procedures fundamental for achieving poverty reduction and the MDGs. The EHaJD therefore calls on DPs, inter-alia, to use GoE systems and common arrangements for delivering their assistance, as well as to simplify their procedures.

The PDs are already active in positively responding to certain aspects of the draft EHaJD through their aid coordination mechanisms –Development Assistance Group (DAG). For example, 8 donors are using a common framework for delivering and monitoring their budget support to the country. Pooled funding is also being experimented in the social sector.

### **Assessment Criteria 2**

Effectiveness of harmonization process to establish Country assistance programs

#### Sub-Criteria

#### **Impact on AfDB CSP development: Rating; modest**

The draft EHaJD, as well as, experience gained from the Joint Budget Support Process provides useful information for the ongoing CSP development process. They, however, had negligible impact on the timing of the next process. The key determinant of the timing of the CSP development process is the second national PRS, which is yet to be endorsed by the DPs.

**Value-added compared with the previous process: Rating; potentially substantial**

The EHaP will likely produce substantial value-added if the EHaJD is fully adopted by the GoE and DPs. The Joint Budget Support Process (JDBSP) is indicative of this –Donors consider the JDBSP not only to have substantial value-added but also to have substantially contributed to the harmonization process in the country. The GoE, however, rated the JDBSP value-added as modest. The DP aid coordination mechanisms in place are also considered effective.

The EHaP provides a common framework (conditions, performance indicators) for policy dialogue, planning, delivering and monitoring the performance of the development assistance. It has the potential to:

- Improve accountability and transparency through increased reliability of country systems for information generation and dissemination
- Reduce transaction costs in the long-run

**Framework for promoting better governance and accountability: Rating: substantial**

The existing DP aid coordination mechanisms enable the DPs to discuss and take a common position especially on issues relating to economic and political governance before dialoguing with the GoE.

The draft Ethiopia Declaration on Harmonization, Alignment and Aid Effectiveness has five key principles, and three of which concern better governance and accountability –enhancement and use of GoE systems, managing for results, and mutual accountability.

The EHaJD therefore provides a framework for promoting governance and accountability. However, its effectiveness especially in political governance will be the most difficult challenge.

**Assessment Criteria 3**

Potential of the process to reduce transaction costs

Sub-Criteria

**Country Report Survey Results: Rating; negligible**

The potential to reduce overall transaction costs (DPs & GoE) is negligible within one programming cycle but substantial in the long-run. As demonstrated by the Joint Budget Support Process –part of the EHaP- the EHaP will imply in the short-run extra administrative and coordination costs for both DPs and GoE. According to representatives of DPs and GoE, the additional administrative and coordination costs, in the case of the Direct Budget Support Process, range from 25% to 50%.

In the long-run, the process is likely to reduce overall transaction costs for the GoE as well as the Donors as a result of:

- Maturity of the JDBS mechanisms including dialogue
- Reduction in conditions/policy triggers
- Improved public sector M & E systems

- Complete alignment of donors operations with GoE planning and budget cycles
- Respect of agreed resource flow schedule

**Country Office/HQ views: Rating; negligible**

The process will require resources for administration and coordination as in the case of the Joint Budget Support Process, to which the Bank allocated extra staff time in excess of 50% as reported by the Bank staff interviewed. Further, the Bank's participation in the Joint Budget Support Process was limited to staff time. And to improve the effectiveness of its participation in the process, the Bank will have to allocate other resources in addition to staff time. As a result, the potential of the process to reduce Bank's transaction costs within the programming cycle is negligible.

**Perceptions of Government: Rating; negligible**

The potential of the process to reduce GoE's transaction costs within the programming cycle is negligible but substantial in the long-run. In the case of the Joint Budget Support Process, the GoE perceived an increase in transaction costs in the region of 25-50% contrary to the DP's expectations -- reduced transaction costs. The GoE mainly used the extra resources for data generation, reporting, meetings and learning the process.

**Assessment Criteria 4**

Opportunities associated with the harmonization process.

Sub-Criteria

**Expedite decentralization and enhanced field presence: Rating; modest**

The EHajD carries implications for increased in-country intra-DP coordination and DP-GoE coordination that require for DPs to have empowered country presence with the appropriate staff mix and other resources.

To be an effective partner in the EHajP, the Bank will have to delegate more decision-making power to and allocate better staff-mix to the ETCO. The EHajP is an additional driver of the decentralization process, but its slow progress makes its contribution modest.

**Strengthen AfDB Support of RMC's PRSP process: Rating; substantial**

The process substantially reinforces the Bank's support for the national PRS process. The national PRS process anchors the EHajP process which is also geared towards contributing to effectiveness of the development assistance. The Bank is an active participant in the aid coordination mechanisms and supports the EHajP, and this support represents an additional contribution to the national PRS process.

**Enhance selectivity: Rating; modest**

The EHajD promotes among other things effective division of labor and selectivity among DPs. The adoption of the EHajD is therefore expected to enable the Bank to be more selective in providing support to Ethiopia. As the Bank selectivity improved in 2002-2004 compared to the previous programming period, the harmonization process is expected to have a modest impact on selectivity.

## **Assessment Criteria 5**

Risks associated with the harmonization process.

### Sub-Criteria

#### **Political Risk: Rating; substantial**

Although the GoE leadership and ownership is strong, the political risk is highly substantial mainly emanating from two sources –the internal political crisis that followed the 2005 general elections and the unresolved border conflict with Eritrea. The GoE has yet to satisfactorily manage the internal political crisis which led to the suspension of the disbursement of certain DP funds.

On the PD side, the political risk is negligible within a programming period, as political changes at HQ can hardly affect programmed funds.

#### **Institutional and Operational Risk: Rating; substantial**

The use of the GoE systems and common arrangements for delivering assistance, as well as the simplification of procedures as demanded in the EHaP will require both institutional and operational changes on the part of the DPs. These changes for the Bank will involve among others procurement procedures and rules, and disclosure policy. The GoE's systems will also require strengthening to improve their effectiveness and reliability.

The EHaP also implies a change in behavior of DPs –that is accepting and working with GoE as equal partners.

All these necessary changes require time to be effected, and there is the risk of partly adopting them.

With the adoption of common arrangements and procedures, DP collective influence is expected to increase at the expense of their individual influences. And the identity of individual PDs will likely be lost. As a result, there is the risk of certain PDs reducing their support accordingly.

#### **Fiduciary Risk: Rating; substantial**

This risk is substantial, especially in the short-run. It results mainly from the weakness of the GoE systems to generate timely and reliable information for audit and performance monitoring of the assistance. As a result, there is the risk of mis-reporting of performance –either under- or over-reporting.

## **Assessment Criteria 6**

Effectiveness of the Bank's role in the Ha/JAS process

### Sub-Criteria

**Effectively Engaging in Policy Dialogue: rating; unsatisfactory**

The Bank participates in the existing intra-DP and DP-GoE aid coordination mechanisms and in policy dialogue through HQ and/or ETCO representations. Since the 2005 political crisis, the dialogue covers the political dimension.

Although the Bank participation in policy dialogue is appreciated by the DPs and GoE, DPs interviewed view it to be insufficient in content and quality. This is mainly attributable to the failure of the Bank to undertake economic and sector works and to use lessons learned from its operations in other RMCs to inform the dialogue.

The engagement of the Bank in the policy dialogue is therefore assessed to be unsatisfactory.

**Country Office Influence in Shaping the JAS/Ha Process: rating; unsatisfactory**

Since becoming operational in 2001, the Bank's country office (ETCO) has been vital in improving the Bank's participation in aid coordination and national development processes, bank's access to country economic and sector information and in portfolio management.

The ETCO participates in the DAG and DAG-GoE harmonization taskforce, as well in most of the thematic working groups of the DAG including that on Joint Budget Support. The effectiveness of the ETCO participation is, however, constrained by the lack of decision-making authority and limited access to appropriate and adequate staff resources. The DPs and GoE interviewed consider the ETCO participation in the EHaP unsatisfactory.

**Level of support/alignment with HQ in Tunis: rating; unsatisfactory**

Both HQ and ETCO support the EHaP. HQ engagement in analytical works and in synthesizing lessons learned from its operations elsewhere is limited, and this reduces its capacity to support the EHaP. Further, providing HQ technical back-up support to the ETCO is considered a minor task for HQ staff. The HQ support is insufficient and sometime untimely delivered. As a result, the effectiveness of the HQ support is reduced, hence the participation of the Bank in the process.

The level of HQ support for the process is, therefore, considered unsatisfactory.

**Summary Ratings**

<b>Criteria</b>	<b>Ratings</b>
1. Relevance of process with Bank strategies & alignment/Ha	Highly relevant
2. Usefulness of process to establish effective Country assistance programs	Substantial
3. Potential of the process to reduce transaction costs short/med. Term	Negligible
4. Opportunities associated with harmonization process	Modest
5. Risks associated with harmonization process	Substantial
6. Effectiveness of the Bank's role in the process	Unsatisfactory

## **BIBLIOGRAPHY**

A. Abebe. 2005. Bilateral Donor Coordination: Experience of the Federal Government of Ethiopia

AfDB. 2006. Bank Group Use of DBSL and SWAPs: Issues and Challenges, ADF/BD/WP/2006/35

AfDB. 2005. The Revised Bank Group Action Plan on Harmonization, Alignment, and Managing For Results, ADF/BD/WP/2005/01

AfDB, 2005. CSP/Joint Assistance Strategies (JAS): Implications for Processing the Bank Group Lending Program, ADF/BD/WP/2005/128

AfDB. 2005. The ADF Results Measurement Framework Paper, ADF/BD/WP/2006/05

AfDB. 2004 Assessment of the Impact of Field Offices revised version, ADF/BD/WP/2004/43/Rev.2

AfDB. 2004. Ethiopia Case Study; Stepping up to the Future: An Independent Evaluation of ADF-VII, VIII and IX,' Tunis

AfDB, 2003. Ethiopia 2002-2004 Country Strategy Paper

DFID, 2005. Evaluating Progress towards Harmonization

OECD-DAC, 2006. Learning from Experience with Performance Assessment Frameworks for General Budget Support, OECD-DAC multi-country evaluation of GBS

OECD, 2004. Harmonization and Alignment Country Report; Ethiopia, Paris

GoE, 2002. Ethiopia: Sustainable Development and Poverty Reduction Program

GoE, 2004. Ethiopia: Harmonization action plan 2004-2006

GoE. 2004. Joint Declaration on Harmonization, Alignment and Aid Effectiveness

World Bank, 2005. Expanding the Use of Country Systems in Bank-Supported Operations, Washington D.C.