MEMORANDUM TO THE EDF COMMITTEE
CONCERNING THE

Annual Action Programme 2011 covered by
the Country Strategy Paper 2008-2013
for the European Development Fund in Ethiopia

1. **Identification**

<table>
<thead>
<tr>
<th>EDF allocation</th>
<th>EUR 53 000 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td><strong>Financial contributions:</strong></td>
</tr>
<tr>
<td></td>
<td>EDF: EUR 53 000 000</td>
</tr>
<tr>
<td></td>
<td>Other donors:</td>
</tr>
<tr>
<td></td>
<td>EUR 901 500 000¹ (PBS II)</td>
</tr>
<tr>
<td></td>
<td>Government of Ethiopia:</td>
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<tr>
<td></td>
<td>EUR 1 500 000 (PBS II)</td>
</tr>
<tr>
<td>Legal basis</td>
<td>Council Regulation (EC) No 617/2007 of 14 May 2007 on the implementation of the 10th European Development Fund under the ACP-EC Partnership Agreement², and in particular Article 7 thereof</td>
</tr>
</tbody>
</table>

2. **Country background**

In the last ten years, Ethiopia has put in place policies, capacity building and multi-donor supported programs that brought about strong economic growth, as well as reduction in poverty. In line with the targets set in the PASDEP (Ethiopia’s National Plan for Accelerated and Sustained Development to end Poverty 2005/2006 -2009/2010), and more recently in the Growth and Transformation Plan (GTP- 2010/2011- 2014/2015), substantial investments have been made to reduce infrastructure gaps, to accelerate income growth and to reduce poverty, which have resulted in **good progress on human and social indicators**, illustrated in Table 1. Government's commitment to the Millenium Development Goals (MDG) and poverty reduction can also be confirmed by the high increase in the share of poverty-targeted expenditures in Government, which went from about 42% in 2002/2003 to over 60% in 2009/2010 (12.7% of GDP³). At regional (provincial) level, up to 65% of total resources are used for basic services. As a result, the proportion of people who are below the food poverty line (food poverty headcount index) has declined from 45.5% in 1995/1996 to 29.2% in 2009/2010 (latest government estimate), a staggering 35% reduction in food poverty over a fourteen-year period, which suggests Ethiopia will meet the Goal 1 by 2015⁴. Greater efforts will, however, be required to speed up progress in some MDGs, particular in relation to

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¹ Inforeuro EUR/USD: 1.3 (09/2010); Total envelop for three years. In parenthesis, additional financing of about EUR 565, planned by African Development Bank for a 3rd year, and by International Development Association and the World Bank for a 4th year of implementation.
³ Gross Domestic Product
⁴ The on-going Household Income and Consumption Survey, due in 2012, will provide accurate figures on incomes poverty and inequality to verify whether this goal has been actually achieved.
infant and maternal mortality, access to water and, most importantly, in terms of quality of service provision.

### Table 1: Selected MDG Targets in Ethiopia

<table>
<thead>
<tr>
<th>Goal 1: Eradicate extreme poverty and hunger</th>
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<tr>
<td>Goal 2: Achieve universal primary education</td>
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<tr>
<td>Primary completion rate, total (1-8 years, %)</td>
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<tr>
<td>Goal 3: Promote gender equality and empower women</td>
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<tr>
<td>Goal 4: Reduce child mortality</td>
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<tr>
<td>Mortality rate (under 5 years, per 1,000)</td>
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<tr>
<td>Goal 5: Improve maternal health</td>
</tr>
<tr>
<td>Births attended by skilled health staff (% of total)</td>
</tr>
<tr>
<td>Goal 6: Combat HIV/AIDS, malaria and other diseases</td>
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<tr>
<td>Incidence of tuberculosis (per 100,000)</td>
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<tr>
<td>Goal 7: Ensure environmental sustainability</td>
</tr>
</tbody>
</table>

**Sources:** MOFED (2008), and 2010 -GTP draft Reports from MOFED –Table 4.4; Education Statistics Annual Abstract 2008/2009, MOE and UN (2010); * Government of Ethiopia's estimate.

From an economic point of view, Ethiopia has been the fastest growing non-resource rich African country since 2004, led by agricultural and services growth, averaging 11% annual growth over the last five years and still reaching 10% in 2009/2010. Between 2008 and 2010, the authorities’ macroeconomic adjustment policies, supported by the International Monetary Fund’s (IMF) High Access Component of the Exogenous Shocks Facility (ESF) and strong donor inflows, have addressed the rapid inflation and rebuilt the limited foreign reserves (resulting from the fuel, food and financial crises). More recently, following the completion of the IMF programme, the Government has introduced control measures which have been criticised as non-free market oriented and against the spirit of the IMF programme. These were mostly introduced to support the export orientation of the GTP, as well as to control and pre-empt an inflationary spiral following a 16% devaluation in September, the increase in petrol prices and civil servants salaries in January 2011.

The overall Public Financial Management (PFM) performance has improved over the past years through a range of activities (i.e. new legislation, several reforms and capacity building
programmes in tax, procurement, audit, information and technology (IT) areas). Progress was noted in the results of the PEFA\(^8\) repeat assessments, released in September 2010 at federal level, in Addis Ababa city administration and in five regions. In terms of trade policy, Ethiopia is a member of the ESA EPA\(^9\) group and is actively involved in the negotiations of the EPA. Also, Ethiopia is in the process of WTO\(^10\) accession and expected to table an offer for trade in goods still in 2010.

The new five-year development plan, called the Growth and Transformation Plan, approved in December 2010 and circulated to donors in March 2011, aims at sustaining growth and reducing poverty, to achieve middle income country and food security by 2020. It places a major emphasis on transforming agriculture, stimulating industrialization, broadening economic infrastructure (especially roads, but also railways, energy and telecommunication), achieving the Millennium Development Goals (MDGs), enhancing domestic savings mobilization, and promoting good governance and capacity building. Whilst the Government has demonstrated strong commitment in implementing past strategies, over ambitious targets set up in the GTP, mixed with scarcity of financial, human resources and policy dialogue represent real concerns for the donor community.

3. **Summary of the Action Programme**

1) **Background**

The strategic focus of the Country Strategy Paper/National Indicative Programme (CSP/NIP) 2008-2013 is to support Government in reaching Ethiopia’s MDGs through sustained economic growth and poverty reduction, decentralised social services delivery and strengthening of the democratic process. The strategy is built around three focal sectors: (i) transport and regional integration (EUR 250,000,000); (ii) rural development and food security (EUR 130,000,000); (iii) macro-economic support and governance (EUR 244,000,000); and (iv) Other, Non-Focal Programmes (EUR 20,000,000). The Annual Action Programme for 2011 (AAP 2011) forms part of the CSP/NIP. The total commitments under AAP’s 2008, 2009, 2010 and 2011, including ad-hoc decisions, account for EUR 466,640,000, or 72.5% of the EUR 644,000,000 available under the 10th EDF.

The proposed support under this AAP will be through a continuation of on-going projects namely: the second phase of the Protection of Basic Services (PBS II), and the Civil Society Fund (CSF II). It will build on experience from past performance, and focus on continuing strengthening the decentralisation, capacity building and good governance in the country, as well as contributing to the achievement of some critical MDGs\(^11\).

2) **Cooperation related policy of beneficiary country**

This AAP focuses mainly on the third focal sector, *Macro-Economic Support and Governance*, where the CSP/NIP proposes that the EU will support progress towards Ethiopia’s MDGs for economic growth and human development, improving governance and the involvement of non state actors. This is closely aligned to the national priorities listed in the two development strategies PASDEP ((Ethiopia’s National Plan for Accelerated and Sustained Development to end Poverty 2005/2006 - 2009/2010) and the recently approved GTP (Growth and Transformation Plan 2010/2011 - 2014/2015).

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\(^{8}\) Public Expenditure and Financial Accountability

\(^{9}\) Eastern and Southern Africa Economic Partnership Agreement

\(^{10}\) World Trade Organisation

\(^{11}\) Namely: MDGs 1, 2 3, 4, 5, 7 and 8.
In addition, the fourth Technical Cooperation Facility project (TCF), part of the Other, Non-Focal Programmes, is also being included in this AAP to strengthen the counterparts' capacity to design, lead, implement and monitor CSP/EDF funds under the 10th and 11th EDF.

3) Coherence with the programming documents

Following a review of the conditions for the implementation of General Budget Support (GBS) in late 2010, it was agreed that, whilst the three eligibility criteria are being met, political governance concerns do not make it yet possible to resume GBS in Ethiopia. Whilst work on the alternatives to Budget Support continues, it was agreed to utilise a relatively small part of the remaining resources under the Macro-economic and governance focal sector to support the following programmes aiming at improving the social and governance situation in the country:

- PBS II is the largest multi-donor, multi-sector support project in the country. It aims at expanding the provision of basic services, whilst strengthening the decentralisation process. Following the initial phase (2006-2009, to which EU contributed EUR 148,000,000), a new 3-year phase was started in 2009. Following discussion with headquarters, the EU initially contributed with a support of EUR 50,000,000. This AAP proposes an additional EUR 45,000,000 as bridging funding until the larger macro-economic support will be on-stream. PBS II, by providing 30-35% of total regional budgets, 65% of which dedicated to poverty-related expenditures, is directly contributing to the achievement of several MDGs and good governance.

- The EU and other donors have a well-established engagement with Ethiopian civil society. In accordance with the 9th EDF CSP, the European Union is currently funding a EUR 10,000,000 Civil Society Support Programme (“Civil Society Fund I”). The proposed action is a continuation of this engagement under 10th EDF. It is unique in that the Government of Ethiopia has declared Civil Society Fund (CSF) grants as ‘domestic’ funds for the purposes of the Charities and Societies Proclamation No. 621/2009. This gives the proposed project an unparalleled opportunity to support all categories of organisations, according to Proclamation 621, including ‘Ethiopian’ charities and societies authorised to work on a broad range of development and governance issues.

4) Identified actions

The AAP 2011 includes four projects whose objectives and purposes are listed below:

- PBS II objectives are: i) to support Ethiopia's progress towards the achievement of the human development MDGs\(^\text{12}\), by ensuring that resources for basic service delivery are maintained and/or increased\(^\text{13}\); and ii) to strengthen Ethiopia's national and sub-national governance system by increasing fiscal transparency and social accountability at decentralised level. Its purpose is to contribute to expanding provision and to improve quality of sub-nationally delivered basic services in general education, health, agriculture, water and sanitation, and rural roads, while continuing to deepen transparency and local accountability in service delivery, at decentralised level, in accordance with the goals of PASDEP/GTP.

- The overall objective of the EU Civil Society Fund II is to increase and improve Non State Actors (NSA) role in the national development and democratisation process. The purpose

\(^{12}\) Government’s Plan for Accelerated and Sustained Development to End Poverty/Growth and Transformation Plan/Millennium Development Goals

\(^{13}\) PBS II represents the larger aid support programme and is it is expected to contribute to the achievement of the several human development PASDE/MDGs targets, such as MDG 2, 3, 4, 5, 6, 7 and indirectly MDG 1.
(specific objective) of the programme is to increase NSA capacity to engage in governance and development activities. The project consists of two major components. Firstly, a new Civil Society Fund (CSF II) will be established to fund NSA projects, to be selected through calls for proposals (CfP). Grant contracts will be used for the implementation of the activities. Secondly, non-grant capacity building support will be provided by a Technical Assistance Unit (TAU), to be selected through an international tender.

> The overall objective of the TCF IV is the successful identification and implementation of programmes and projects funded by EDF, under present CSPs, as well as preparations for the next CSP. More specifically, the detailed objective is to strengthen the technical and administrative capacities: (i) of the Ministry of Finances and Economic Development, with main focus on the National Authorising Office, as the main Coordinator of the EU external assistance; (ii) of other relevant Ethiopian institutions/administrations in fulfilling their functions and roles in the preparation and the decentralised implementation of EDF programmes.

5) Expected results

Approval of commitments under the AAP 2011 will contribute to the achievement of the CSP objective under the third focal sector and MDGs targets. In particular, it will enhance good governance by increasing civil servants' capacity and citizens' voice, and it will contribute to improved delivery of basic services and fostered decentralisation process. Special attention in all these nationally implemented projects will be placed on gender equality, environmental sustainability and equity issues. All programmes also include safeguard mechanisms to assure appropriate use of funds (including monitoring and evaluation systems and joint review missions).

> The expected results of the PBS II 6 sub-programmes are: i) to expand availability and capacity of basic services personnel in primary education, health, agricultural, water and sanitation services, and rural roads at decentralised level; ii) to expand the availability and quality of local infrastructure in all five basic services in selected districts; iii) to provide critical health commodities to regions through the Ministry of Health; and strengthen system support of Ministry of Health staff; iv) to improve the effectiveness of decentralised PFM operations; v) to improve local authorities' transparency in sharing budget information and the ability of citizens to influence local use of public funds; and vi) to enhance the capacity of sector ministries to track progress and measure results.

> The expected results of CSF II are: i) to increase human, material and technical capacity of NSAs to engage in governance and development; ii) to increase the sustainability, accountability and constituency of NSAs working on governance and development; iii) and to strengthen more effective and efficient delivery of services in the governance and development sectors.

> The specific results of TFC IV are: i) to strengthen ability of the relevant Ethiopian institutions/administrations to design programmes and/or projects, including preparation of pre-feasibility, feasibility, impact assessment, identification and sector policy analysis; ii) to strengthen the ability of the relevant Ethiopian institutions/administrations to implement projects in terms of efficiency, effectiveness and leadership; iii) to improve their awareness of general development, trade issues and other cross-cutting issues; iv) to strengthen aid effectiveness and raise awareness and visibility of EU/Ethiopia projects (communication, events, tender publication, etc.); and v) to progress in preparations of next CSP/NIP and 11th EDF.
6) Past EU assistance and lessons learnt

After four years of implementation, the Protection of Basic Services - PBS I Evaluation and several bi-annual joint review missions recognised the important role PBS is playing in supporting the expansion of basic services and deepening the fiscal decentralisation process, through the predictable provision of resources to regions, capacity building to strengthen PFM systems at all levels, and enhancement of fiscal transparency and citizen participation in budgeting processes in Ethiopia. However, increasing concerns have been raised on the quality of the service provided (following a very rapid expansion in quantity) and the need to prove the impact of the PBS at local level. Under PBS II, greater emphasis is being placed on assessing the effectiveness and the results of the project by improving data quality collection and strengthening the jointly analysis with key sectors involved.

The 2008 Results Oriented Monitoring (ROM) and the 2009 Evaluation of the programme's first phase found the Civil Society Fund to be unique among most donor-funded civil society support initiatives in Ethiopia for its tri-partite governance arrangement (Government of Ethiopia, EU and Civil Society Organisations), promoting dialogue and trust amongst partners, and for its inclusion of a stand-alone objective to fund institutional capacity building of NSAs. The proposed extension incorporates several recommendations to bring the programme “from good to excellent”. In particular, the representation of NSAs in the project will be strengthened and diversified, and whilst consideration of regional equity remains valid, special attention will be given to NSAs in emerging regions. Technical assistance on how to work in partnerships has been added.

Key lessons learnt on TCF are the need: i) to include a pool of expertise under a service contract instead of ad hoc Technical Assisances, to use funds in a more efficient and effective way, improve planning, programming and regular monitoring of TCF funds; ii) to increase emphasis on activities like training, conference and seminars, and improve their complementarily with similar activities under other existing programmes, to reach more stakeholders and improve quality and speed of implementation; and iii) to improve institutional dialogue and control between different actors in decentralised implementation, placing more attention to issues related to aid effectiveness, visibility and sector policy analysis.

7) Complementary actions/donor coordination

PBS, and the CFS project, complement each other in their endeavour to strengthen the capacity of civil servants to effectively and efficiently administer public funds, particularly at decentralised level, and to build a better governance environment in the country. PBS has a strong nexus with the ongoing Democratic Institutions Programme (DIP), coordinated by the UNDP, funded, among others, by the EU (EUR 3,000,000), the Justice Sector Programme (a separate EU project of EUR 4,000,000, mostly for upgrading the training of justice professionals), and the Gender Programme (EUR 3,640,000 with a training component for the public administration at all levels). CSF II and PBS II also closely coordinate in relation to the sub-component on social accountability (PBS II, component 4), which is implemented through NSAs as the only other donor-funded NSA support project that incorporate a capacity-building component in the field of governance co-managed by the Government of Ethiopia, donors and Ethiopian NSAs. PBS, and CSF are also complementary to other EU interventions, supported through the Thematic Programmes (Non State Actors & Local Authorities, Investing in People, etc.) and the EDF, such as the Productive Safety Net Programme, the Food Facility (a significant part of which is delivered through NSAs), the Road Sector Support and the Women's Empowerment and Gender Equality (WEGE) Project.
Donor co-ordination in Ethiopia is relatively advanced with a formal structure established for Government-donor and donor-donor co-ordination. Presently, the High Level Forum (HLF) is the primary dialogue structure that brings the Development Assistance Group (DAG) members and Government at the level of policy dialogue, and is chaired by the Ministry of Finance and Economic Development of Ethiopia, at State-Ministerial level. Annual Progress Reviews provide a yearly forum for dialogue on progress in implementing PASDEP (Ethiopia’s National Plan for Accelerated and Sustained Development to end Poverty). In addition, Article 8 consultation provides opportunity to discuss more technical aspect of EU - Ethiopia cooperation. EU Member States (+ Norway) and the Commission are at present working together on revitalising the EU Initiative on Aid Effectiveness and Division of Labour in Ethiopia. The Government is planning to play a more important role in donor coordination in the future, which might be supported by the EU and facilitate through the planned TCF IV.

Of particular relevance for this AAP 2011 implementation will be the regular joint programme reviews under PBS, as well as the dialogue under the Governance Technical Working Group and the Civil Society, and Gender Equality Sub-groups.

4. Communication and visibility

The communication strategy for the overall AAP consists of consultations with relevant Government institutions and CSOs, with the purpose to extend the knowledge of the identified actions and build support among stakeholders and the general public. In 2010, the website-based information system was reviewed and provides updated information regarding each of the sectors and actions covered by the AAP. The EU's visibility strategy in Ethiopia was upgraded in 2009, including on development cooperation. Accordingly, during implementation of the projects, the EU will pay particular attention on visibility aspects.

5. Cost and financing

Table 1. Indicative cost and financing of AAP 2011 (EUR)

<table>
<thead>
<tr>
<th>I. Macro-Economic Support/ Governance</th>
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<tbody>
<tr>
<td>Protection of Basic Services - PBS II</td>
<td>45 000 000</td>
</tr>
<tr>
<td>Civil Society Fund - CSF II</td>
<td>6 000 000</td>
</tr>
<tr>
<td>Technical Cooperation Facility - TCF IV</td>
<td>2 000 000</td>
</tr>
<tr>
<td><strong>Total amount of the action programme</strong></td>
<td><strong>53 000 000</strong></td>
</tr>
</tbody>
</table>

Cumulated changes of the allocations to the specific actions not exceeding 20% of the maximum contribution of the European Union or extensions of the implementation period not exceeding 20% of the initial duration of the implementation period, are not considered to be substantial, provided that they do not significantly affect the nature and objectives of the Annual Action Programme. This may include an increase of the maximum contribution of the European Union up to 20%.

The Committee is invited to give its opinion on the attached Annual Action Programme for Ethiopia.
ANNEX I

1. IDENTIFICATION

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>Protection of Basic Services (PBS II)</th>
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<tr>
<td>CRIS No:</td>
<td>FED/2010/22502</td>
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<table>
<thead>
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<th>Total cost</th>
<th>EUR 2 446 500 000</th>
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<tbody>
<tr>
<td>i) EU contribution:</td>
<td>EUR 45 000 000 - A envelope</td>
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<tr>
<td>ii) Other donors contribution:</td>
<td>EUR 901 500 000¹</td>
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</tbody>
</table>

*Joint co-financing:*
- IDA EUR 440 000 000
- DFID EUR 220 000 000
- CIDA* EUR 12 000 000
- DCI, Ireland EUR 20 000 000
- RNE EUR 10 000 000
- Spain EUR 20 000 000
- Italy* EUR 7 500 000
- Austria EUR 7 000 000

*Parallel financing:*
- AfDB EUR 130 000 000
- KfW EUR 35 000 000

| iii) Government of Ethiopia contribution: | EUR 1 500 000 000 |

<table>
<thead>
<tr>
<th>Aid method / Method of implementation</th>
<th>Project approach</th>
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<tbody>
<tr>
<td>DAC-code 16050</td>
<td>Joint management with the World Bank</td>
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<thead>
<tr>
<th>Sector</th>
<th>Multi-Sectors Aid for Basic Social Services</th>
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2. RATIONALE

2.1. Sector context

The Ethiopia Protection of Basic Services (PBS) Programme was launched following Ethiopia’s 2005 elections, which ended in violence and human rights concerns. As a result, development partners suspended general budget support. However, they recognized the imperative to continue supporting the Government’s significant progress towards the Millennium Development Goals (MDGs) through decentralized basic services. Development partners and the Government created in 2006 the PBS programme, a multi-sector, multi-level, multi-donor innovative instrument. The European Commission joined the programme in 2007

¹ Inforeuro EUR/USD: 1.3 (September 2010); * exclusively supporting Sub-programme B on Health.
with an initial EU contribution of EUR 150,000,000, followed by a new Financing Agreement in support to PBS II in 2009 of EUR 50,000,000.

The PBS supports the Government’s commitment to expand access and improve quality of local basic services by contributing to the block grant to regions and districts (sub programme A1) which provides fast-disbursing funds for expenditures in health, education, water, agriculture and, under PBS II also rural roads services. Disbursements for the block grants (representing about 95% of total PBS contribution) are based on six-monthly Joint Review and Implementation Support (JRIS) missions that monitor progress on agreed SAFE principles (Sustainability in Additionality, Accountability and Fairness, Fiduciary standards, and Effectiveness). These are used to ensure that decentralized basic service spending is:

(i) maintained or increased through time (with an increased share from Government),
(ii) disbursed to local governments fairly (according to a formula approved by the House of Federation and by the Regional Councils)
(iii) accounted for properly and
(iv) impact local service delivery positively.

The JRIS also monitors adherence of reporting and monitoring requirements to ensure resources support decentralised service delivery that promotes the government's commitment to achieving the Millenium Development Goals (MDGs). PBS block grants follow Government fiduciary, staffing, planning, monitoring and reporting systems.

To ensure that these resources deliver intended results, other PBS II sub-programmes support the block grant financing with capacity-building activities aimed at strengthening public financial management, social accountability, local investment planning and execution, access to crucial health commodities, and monitoring and evaluation.

PBS is a key instrument for promoting pro-poor basic service delivery by sub-national governments in Ethiopia.

- It formed a core component of the Government’s Programme for Accelerated and Sustained Development to End Poverty (PASDEP) and it is also at the core of the new five year development plan, the Growth and Transformation Plan (2011-2015), whose goal is to eradicate poverty and achieve middle level income status by 2020, achieving all the MDGs by 2015, with an added focus on the quality of services.

- PBS is also fully aligned with the objectives of the Country Strategy Paper (CSP).

- PBS, and particularly the block grant component, is also an excellent example of the implementation of several of the Paris and Accra principles, as it is fully owned and led by Government, it has contributed to improved donor harmonisation, alignment to government systems - reducing transaction costs via joint reporting and monitoring- and ensured greater predictability in aid disbursement.

- PBS II is also considered to contribute to the achievement of several MDGs, namely:
  1. increased access and quality of primary education services (MDGs 2 and 3);
  2. reduction in incidence of key preventable diseases and under-five and maternal mortality (MDGs 4 and 5);
  3. reduction in poverty due to agriculture growth (MDGs 1, 3 and 7);
  4. increased supply of potable water and hygiene awareness (MDG 7 and indirectly, MDGs 2, 3, 4 and 5).

The programme also contributes to MDG 8 on partnerships via the promotion of a harmonized donor framework for the PBS, and alignment with country systems.
PBS II was developed as a three year programme (May 2009 – Dec 2011), with an overall donors' contributions estimated at almost EUR 1,000,000,000 (95% to block grants) in addition to Government's contribution of about EUR 1,500,000,000.

The World Bank, AfDB and DFID (and potentially KfW and NL) have requested additional financing and an extension of their support to PBS II for a fourth year\(^2\). This request is based on three considerations:

i. The design phase of PBS II took almost 2 years due to lengthy negotiations to revise/expand some of its elements i.a. enhanced Public Financial Management (PFM), follow up to the social accountability pilot, the addition of the effectiveness principle and of the M&E (Monitoring and Evaluation) sub-component\(^3\). Donors and government alike are now fully engaged in the implementation of these new elements and unwilling to start the design of phase III.

ii. Some of these expanded components require extensive human capacity as well as cross-ministerial coordination, which are taking time to realise\(^4\). The restructuring of MOFED/Government to better manage donor funded programmes has also caused some delays in the implementation of PBS II. The proposal to extend implementation by one year (with January 2013 as the new end date) was welcomed by donors and government alike as it will provide more time for some of these enhanced/new components to produce the intended objectives and eventually ensure better results from PBS II.

iii. Finally, many donors front loaded their support to PBS II in the first one or two years of implementation, responding to GOE-IMF recommendation, providing much needed resources to support Ethiopia during the commodity and financial crises. This led to a limited amount of funds for the third (and fourth) year of implementation (estimated to be in the range of EUR80,000,000 for 2011 only), which risks undermining the good progress so far achieved by the Government in the achievement of several MDGs.

The proposed additional support to the second phase of PBS II builds upon (i) the successful experience of PBS I and II, (ii) the joint local agreement to extend PBS support, as well as being (iii) the decision taken between Government and the Commission during the Mid Term Review to provide additional financial support to PBS II whilst assessing the opportunity for a resumption of a budget support operation in 2010/11\(^5\). If the additional EU financing is granted, EU contribution to PBS II as share of total donor contribution (without considering the additional financing from WB, DFID and AfDB) will decrease from about 18% under PBS I to about 5% under PBS II, with EU share in the overall Block grant almost halving from 7.5% in Phase I to less than 4% in Phase II.

This present project foresees the continuance of the Commission’s support to PBS implementation, by providing additional financial resources only to (i) Sub-programmes A1 - the block grant, (ii) the Local Investment Grant (LIG) to support capacity building of local governments to manage capital budget, and (iii) to the PBS Secretariat to ensure government and donors are timely informed and supported on all administrative, technical and logistic support.

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\(^2\) With a combined contribution of about EUR 565,000,000, mostly for sub programme A1

\(^3\) This new component aims at supporting Government's efforts to strengthen its monitoring system by sponsoring data quality assessment, roll out of new Management Information systems at sector level and supporting the implementation of the Central Statistical Agency's National Statistical Development Strategy.

\(^4\) These include the fiduciary, financial disclosure and demand-side accountability work

\(^5\) Please refer to the Note 1878 to GQ sent on 31/08/2010
These areas of financial support were selected keeping in mind: i) existing funding availability in each sub programme; ii) the Government's wishes in the allocation of funds; iii) consultation with other supporting donors. No additional resources are foreseen for the other components as:

- Sub programme B – Health: PBS I Health component activities have been extended to Dec 2010, hence no resources have been disbursed for the PBS 2 Health MDG Support Facility (Sub-program B) as yet. The Italian and the Dutch government, as well as the WB with its planned additional financing will support this component.
- Sub programme C1 – PFM/procurement – African Development Bank (AfDB), DFID and WB have committed the entire indicative amount required to implement this component (about EUR 35,000,000) which is yet to be disbursed;
- Sub programme C2 – Social accountability – under the first FA for PBS II EUR 1,250,000 are earmarked by EU for this component, whose implementation will start only at the beginning of 2011;
- Sub programme D – M&E (EUR 6,500,000) – an amount of EUR 400,000 is earmarked under the EU Financing Agreement for PBS II, which has not yet been utilised due to delays in signature of the Administrative Agreement as well as slow start up from Government of Ethiopia's side.

2.2. Lessons learnt

In the year since PBS II started (2009), the Government and DPs have conducted three Joint Review and Implementation Support (JRIS) missions. Each JRIS review has underscored a common understanding and commitment to SAFE principles which were satisfactorily met. The Government has continued demonstrating its commitment to expanding and enhancing basic service delivery at a decentralized level by yearly increases in the size of the Federal Block Grant. Between financial year (FY) 05 and FY09, there has been an increase in the size of the Block grant in real Birr terms of 30%. Also the share of poverty-targeted expenditures in total Government expenditures increased from 40% in FY 2002 to 60% in FY 2009 and remained protected also during the financial crisis indicating Government's efforts to meet the MDGs.

a. Achievements

Substantial progress was noted in basic service provision across all PBS sectors.

- In the education for example, the Net Enrolment Rate for children in primary school has increased from 77.5% in 2005/06 to 87.9% in 2009/10. This represents an increase of almost 2 million additional children attending school within three years. The trend in primary completion rate (grade 1-8) is also quite encouraging showing a significant rise from 14% in 1995 to 44.7% in 2008 although a great deal more needs to be done to retain children in school and achieve the Government of Ethiopia's set targets.

- Gender parity in first and second cycle has reached 0.98% from an average of 0.8 % only in 2006.

- Impressive increases in health have been realized since 2007 in health, where the ratio of Health Extension Workers (HEWs), who raise awareness of disease and malnutrition prevention as well as provide basic curative care to the population, has reached 1:2,600 from 1:4,369 three years before (with the number of HEWs increasing from 2,700 to more than 30,000 in four years).

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6 European Commission calculation based on MOFED and IMF Staff estimate, 2009; MOFED-PFMC-JBAR April 2010
Similarly in agriculture, the number of development agents providing technical advice to small-scale farmers has risen from about 50,000 in 2008 to 63,000 in 2010, an increase of 26%. This resulted in more than 9 million farmers receiving agricultural training in 2009 (from 1 million in 2004/2005) and a tripling of agriculture extension packages to women-headed households.

In the water sector, 88.6% of the urban and 61.5% of the rural population had access to potable water in 2009. This represents a substantial improvement over the baseline in 2007, where of 82% and 46%, had access respectively.

Table 1 below summarises trends in Ethiopia's MDG achievement as well as future targets. Whilst it is impossible to define the exact contribution PBS played in specific sector and MDG progresses (attribution), the World Bank has calculated that 53% of the PBS total project resources are dedicated to General Education (i.e. grade 1 to 8) for the recruitment, training and salary of teachers, as well as for the rehabilitation of primary schools; about 21% is dedicated to General agriculture, fishing and forestry to recruit, train and pay development agents and provide training centres; approximately 15% of PBS is dedicated to the health sector, mainly utilised for staff salary and training (of health extension workers), the purchase of retroviral and anti malaria medicines, vaccines and ITN and lab equipment; about 6% is dedicated to 'General water, sanitation and flood protection' (with at least 50% of that share spent on water) and about 5% dedicated to Transportation. Additional funds are being used to support the PFM, financial transparency and social accountability components.

### Table 1: Selected MDG Targets in Ethiopia

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Eradicate extreme poverty and hunger</td>
<td></td>
<td>60.5</td>
<td>55.6</td>
<td>...</td>
<td>39</td>
<td>29.2*</td>
<td>29.2</td>
</tr>
<tr>
<td></td>
<td>Poverty headcount ratio (national poverty line, %)</td>
<td></td>
<td>47.6</td>
<td>44.1</td>
<td>47.2</td>
<td>38.4</td>
<td>...</td>
<td>38.4</td>
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<tr>
<td>2</td>
<td>Achieve universal primary education</td>
<td></td>
<td>14.0</td>
<td>23.0</td>
<td>41.7</td>
<td>44.7</td>
<td>...</td>
<td>63</td>
</tr>
<tr>
<td>3</td>
<td>Promote gender equality and empower women</td>
<td></td>
<td>0.66</td>
<td>0.65</td>
<td>0.63</td>
<td>0.69</td>
<td>0.78</td>
<td>0.93</td>
</tr>
<tr>
<td>4</td>
<td>Reduce child mortality</td>
<td></td>
<td>204</td>
<td>179</td>
<td>148</td>
<td>122</td>
<td>109</td>
<td>101</td>
</tr>
<tr>
<td>5</td>
<td>Improve maternal health</td>
<td></td>
<td>5.6</td>
<td>5.7</td>
<td>6</td>
<td>25</td>
<td>65</td>
<td>75</td>
</tr>
<tr>
<td>6</td>
<td>Combat HIV/AIDS, malaria and other diseases</td>
<td></td>
<td>2.4</td>
<td>2.0</td>
<td>2.1</td>
<td>...</td>
<td>...</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Ensure environmental sustainability</td>
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<td>5</td>
<td>7</td>
<td>9</td>
<td>11</td>
<td>13</td>
<td>20</td>
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</tbody>
</table>

Sources: MOFED (2008), and 2010 -GTP draft Reports from MOFED –Table 4.4; Education Statistics Annual Abstract 2008/09, Ministry of Education and UN (2010); * Government of Ethiopia's estimate.

A review under the pilot Local Investment Grants sub-programme in early 2010 showed that the technical quality of projects has been generally satisfactory and that woredas (Ethiopian administrative divisions) have started to implement the national standards/systems on planning and budgeting, procurement and financial management. Also, environmental and social safeguards compliance, which had been a challenge under PBS I, has improved and a safeguards expert has been hired by the Ministry of Finance and Economic Development (MOFED) to maintain these gains.

The Government has also shown its commitment to foster citizen engagement in this service delivery, as evidenced by the institutionalization of budget posting at federal, regional and local levels and the dissemination of the Financial Transparency and Accountability (FTA)
tools, guidelines and directives to regions also posted on the internet, and the appointment and recruitment of FTA focal points at regional level. Serious efforts have been taken to promote the use of FTA tools and help citizens understand woreda budgets and delivery of basic services through regional and woreda level workshops and training across the entire country.

PFM related activities have also progressed, although at a lower pace. Over the past two years about 65,000 local officials have undergone short-term training in accounts reforms, budget reforms, internal audit, and procurement reforms.

Similarly, the Government has shown a slow but strong commitment on expanding the social accountability component following an independent evaluation of the pilot project under PBS I. The second phase will start in mid 2011, following the recruitment of an independent management agent.

b. Challenges

Despite these favourable developments, implementation of some elements of the PFM sub-programme has been slow. This relates to limited capacity at all administrative levels on financing management, reporting and procurement, hastened by high turnover of trained staff and lack of incentives system. Following the November 2009 JRIS where the need to review and strengthen Government implementation arrangements was noted, Government has made significant improvements, hiring new staff at both central (Ministry of Finance and Economic Development and the Ministry of Health) and regional level, clearly delineating roles of various implementing departments and sub-national entities and establishing a working group to follow up on implementation. These improvements were reflected in the April 2010 JRIS Aide Memoire, which rated as Satisfactory both the Development Objectives and the Implementation Progress. At the November 2010 JRIS, donor requested additional efforts from MOFED and regions to find a way to further improve the timeliness and quality of Interim Financial Reports (IFRs), Quarterly Expenditure Reports (QERs), post Procurement Audits and yearly audit reports.

Also, while the design of the next phase of Social Accountability (Sub-program C2) has been moving forward well, PBS II had the optimistic deadline of April 30, 2010, which has not been met. The Social Accountability Steering Committee is currently finalising the recruitment of the implementing agency and start up is expected in mid 2011.

Delays were noted also in the implementation of M&E activities, as well as in the achievement of several sector outcomes at the Higher level objectives (see Results framework Annex 2). At the November JRIS a reviewed set of indicators (in line with GTP as well as new World Bank requirement) was presented and a full analysis of key achievements and challenges will be presented at the next JRIS (May 2011). Further strengthening is also required with regards to coordination and collaboration between MOFED and sector ministries, as well as PBS donors and sector groups to improve the effectiveness between PBS financing and sector outputs. A positive progress was the presentation of the Public Expenditure Review carried out by the Ministry of Education jointly with MOFED at the November 2010 JRIS. At donors' request to speed up with the implementation of independent studies and data quality assessment part of Sub programme D, government responded positively. It established a joint M&E working group that includes all concerned line ministries as well as the Central Statistical Agency to regularly and closely monitor implementation of this component. The EU Delegation was instrumental to the realisation of this joint collaboration.

In terms of policy dialogue, PBS avails of the well-developed sector dialogue which exists under the Health, Education, Road, WASH and Rural Development (RD&FS) working groups (all of which are co-chaired by government and two by the Commission). The PBS
working group on fiduciary issues, has also been instrumental in strengthening the PFM dialogue, by sponsoring the PEFA (Public Expenditure and Financial Accountability) exercises in 2007 and 2010, as well as conducting weekly meeting with MOFED and providing extensive advise, TA and skill training to district, regional and federal institutions involved in PFM (including the Auditor General). Finally, PBS provides, during the biannual Joint Budget Aid Review (JBAR), the opportunity for the IMF and the WB to present the outcomes of the macro economic dialogue, which in Ethiopia is strongly led by those institutions. The biannual dialogue with regions focuses mostly on issues of fiscal and administrative decentralisation, with an emphasis on resource allocation across sectors, contributing to facilitate the dialogue between federal and sub-national level, and, at a less extent, between Ministry of Finance and line ministries.

2.3. Complementary actions

In addition and in support to PBS, the Commission co-finances a number of multi-donor programmes that directly and indirectly contribute to the achievement of the PBS targets. PSCAP I (Public Sector Capacity Building Programme) and II, and the Support to Audit General under DIP (Democratic Institution Programme) are some important building blocks to strengthen financial management and control systems and reinforce the capacity of public institutions, such as the parliament, the anti-corruption commission or the federal auditor to oversight use of public funds. The PSNP (Productive Safety Net Programme) has been playing an important role in addressing food insecurity contributing to the development of social and physical infrastructure (about 80% of the PSNP funds being utilised for public works) and the reduction of poverty. Improved access to water and sanitation are also supported through a number of NGOs projects financed by the Water Facility, whilst the recently completed 'Addis Ababa Water supply' project and the '15 Small Towns project' contribute to the expansion of water and sanitation availability in urban areas. The second phase of the Road Sector Support programme, whilst working towards increasing accessibility to road network across the country, has introduced a monitoring system to document all existing roads at decentralised level. Finally, a number of NGOs under the Budget Lines Calls for Proposal support interventions to address HIV/AIDS, maternal health, food security, etc.

PBS II reflects recommendations outlined in EuropeAid's document "Supporting Decentralisation and Local Governance in Third Countries". Whilst existing programmatic aid instruments have become robust and are capable of ensuring the coverage of Ethiopia’s financing requirements, Government and donors within the Mid Term Review agreed to re-engage in policy discussion for the re-launch of a budget support operation to finance the incoming Growth and Transformation Plan (the new PASDEP). The Commission developed a Road Map, started consultations with government and like-minded donors, and recruited an external consultant to help with the assessment of the eligibility criteria. Preliminary results indicate that whilst Ethiopia would be considered eligible for budget support, government and donors are not yet ready (for different reasons) to resume General Budget Support. However, mutual interest has been expressed for the development of new initiatives in support to the transforming elements of the GTP to facilitate Ethiopia’s transition to a middle income status that will need to be further developed.

2.4. Donor coordination

Donor co-ordination in Ethiopia is relatively advanced with a formal structure established for Government-donor and donor-donor co-ordination. Presently, the High Level Forum (HLF) is the primary dialogue structure that brings the Development Assistance Group (DAG)

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8 It should be noted that DEL is an active member of the donor macro economic sub-group and that in the last year it is been invited to participate to selected meetings during the IMF consultations.
members and Government at the level of policy dialogue and it is chaired by the MoFED at State-Ministerial level. Annual Progress Reviews provide a yearly forum for dialogue on progress in implementing PASDEP. The DAG is the main forum for donor co-ordination and policy dialogue in the country, which has Technical Working Groups (TWG) arranged on a sector basis. The EU Delegation plays an active role in each part of this co-ordination machinery, and has undertaken a leading role in sector and donor co-ordination in several DAG TWGs. In addition, Article 8 consultation provides opportunity to discuss more technical aspect of EU-Ethiopia cooperation.

The PBS Donor Group, made of all contributing donors as well as other donors (‘observers’), oversees and monitors the overall implementation of the programme. It is co-chaired by the WB and a rotating donor (EC co-chaired if for two years under PBS I). It is supported by the PBS Secretariat and a number of thematic sub-groups that provide regular oversight and update on the implementation of the various sub-programmes. The European Commission co-chaired the Social accountability for 2 years under PBS I and now co-chairs the M&E group and actively participated in the PFM subgroup. Bi-annual Government and Donor review mechanisms (JRIS and JBAR) and joint field missions provide the opportunity to assess progress and discuss any issues that may be of relevance for the implementation of the programme with regional and sectoral representatives. Financial, procurement, audit and monitoring functions and reporting are in line with government systems.

3. DESCRIPTION

3.1. Objectives

The objectives of PBS (Protection of Basic Services) II are i) to support Ethiopia's progress towards the achievement of the human development Millennium Development Goals (MDGs)\(^9\) by ensuring that resources for basic service delivery are maintained and/or increased\(^10\); and ii) to strengthen Ethiopia's national and sub-national governance system by increasing fiscal transparency and social accountability at decentralised level.

The purpose is to contribute to expanding provision and improve quality of sub-nationally delivered basic services in general education, health, agriculture, water and sanitation, and rural roads, while continuing to deepen transparency and local accountability in service delivery at decentralised level in accordance with the goals of PASDEP/GTP.

3.2. Expected results and main activities

PBS II is structured around one main component (the Block Grant Transfer) supported by five sub-programmes. Key expected results for each sub-programme are summarised below, whilst specific indicators and targets are spelled out in the PBS II results framework:

**Block grant (Sub programme A1):** Contributing to expanding access to and quality of basic services. **Outcome:** Increased availability and capacity of basic services personnel for primary education, health, agricultural, water and sanitation services and rural roads. **Activities:** provision of financial contributions to sub-national governments’ recurrent expenditures in the form of block grant transfer (BGT).

**Sub programme A2:** Local Investment Grants (LIG), **Outcome:** contributing to increased availability and quality of local infrastructure (on a pilot basis) **Activities:** provision of Special Purpose grants to selected districts for capital investment in health, education, agriculture and

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\(^9\) Government’s Plan for Accelerated and Sustained Development to End Poverty/Growth and Transformation Plan/Millennium Development Goals

\(^10\) PBS II represents the larger aid support programme and is it is expected to contribute to the achievement of the several human development PASDE/MDGs targets, such as MDG 2, 3, 4, 5, 6, 7 and indirectly MDG 1.
natural resources, water and sanitation, and rural roads, as well as training on planning, budgeting, procurement and monitoring and environmental safeguards activities.

**Sub programme B: Financing the health MDGs support facility.** **Outcome:** Critical health commodities procured and distributed to regions by MoH, and system support for MOH staff provided. **Activities:** purchase and distribution of critical health commodities like vaccines, bed-nets, contraceptives and other inputs essential to primary health service delivery; delivery of training to health extension workers, distribution system strengthened.

**Sub programme C1 and C2: Enhanced accountability in Decentralized Finances and Services (C1).** **Outcome:** Improved sub-national public financial management and procurement by rolling-out financial transparency and accountability initiatives related to basic service financing and delivery. **Social Accountability (C2) Outcome** enhanced capacity of civil society organizations and citizens to engage meaningfully in basic services budgeting, planning and monitoring. **Activities:** provision of various trainings (i.e. participatory budgeting methodologies, accounting, IT, procurement, auditing, etc.); roll out of financial management IT system at district level, expansion of the accountability pilot project.

**Sub programme D: Strengthening existing M&E capacity at sectoral and local level.** **Outcome:** More timely and accurate data provided to track progress and measure results. **Activities:** Capacity building and purchase of IT systems at sectoral M&E systems and for the Central Statistical Agency, realisation of surveys and data quality to better link inputs to results.

The proposed action will provide support to Sub-programme A1 and A2: the block grant transfer and the Local Investment Grant respectively. A limited contribution to the PBS Secretariat will also be provided to ensure government and donors are timely informed and supported on all administrative, technical and logistic matters.

### 3.3. Risks and assumptions

Four main risks at country levels have been identified, namely:

**Macroeconomic stability:** a worsening of the external financial position and of the inflation level could have serious negative impact on growth and poverty reduction goals. The IMF and Government of Ethiopia conduct regular semi-annual macro surveillance missions to monitor macroeconomic performance, the results of which are discussed within the macro group and formally presented by the IMF and the WB to all PBS stakeholders on the occasion of the PBS biannual Joint Budget Aid Review (JBAR) mission. The latest IMF report indicated that Government has met all conditions and targets, and was able to restore macro economic stability. The possibility of a new IMF support to Ethiopia is currently under revision.

**Governance:** Although some governance indicators are improving, the preliminary report of the Electoral Observation Mission referred to a lack of level playing field in politics, that matched to the uncertainty on the application of the CSO (Civil Society Organisation) law could affect the position of various donors. Regional factors (conflict with Somalia and Eritrea) also need to be considered. Whilst external risk are difficult to address, the internal risks are being managed through implementation of Governments good governance agenda – with support from a range of instruments including PBS, as well as additional requirement on staffing and training in the dated covenant, and a close dialogue with Government.

**Corruption:** The risk of significant leakage in the recurrent budget at decentralised level appears limited (with some exception in the emerging regions). The continuous audits, as well as recent repeat PEFA assessments confirm that PFM in Ethiopia is relatively robust. The study on political allegations also indicated that the safeguards under PBS II are robust. There

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11 Evaluation and design of new phase to be finalised at the end of 2010.
12 IMF report 10/175 (20 June, 2010)
are concerns that procurement, asset management, community level leakages, and substantial increases in discretionary resources at local level may lead to increased fiduciary risks. Auditing, accountability and transparency mechanisms have been reviewed under PBS II design, and in a mutual understanding exist between government and donors that these may be strengthened, should they prove inadequate to ensure correct use of funds.

**External shocks:** Ethiopia’s vulnerability to drought is an ever-present risk and service delivery may be affected through diversion of resources to relief efforts. This risk can be mitigated through continued support to the Safety Nets, Food Security, and other incoming agriculture programmes (i.e. AGP).

**Sustainability** In the long run, there are high risks for delivery quality services, particularly with regard to the long-term sustainability of donor financing of local recurrent expenditures and the need to strengthen data quality. The Government provides EUR 1,500,000,000 of its own resources to finance PBS, demonstrating strong commitment, which suggests it could be sustained without donor support. Further, to manage this risk, PBS II is based on sustainability and effectiveness principles on which PBS implementation shows consistent progress. Nonetheless, there remains substantial room for improvement.

3.4. **Crosscutting Issues**

A key objective of PBS II is that all groups in Ethiopia’s rural areas share the benefits of expanded coverage and quality of services through reduction in inequalities by region, geography, gender, and socioeconomic status, and that empowered, knowledgeable citizens engage in decision making around delivery of basic services and budget processes. Therefore, the issues of gender equality and good governance will be directly addressed. An environmental safeguards assessment has been launched in September 2010 to look at the impact of constructions of service in LIG pilot woredas as well as in relation to medical waste disposal. The study will also look at the long terms strategic implication related to climate change.

3.5. **Stakeholders**

The **Channel One Programs Coordinating Unit (COPCU)** in the Ministry of Finance and Economic Development (MOFED) will continue to be responsible for coordinating activities across the basic service ministries and sub-national government entities, ensuring compliance with joint legal agreements and being the main executing agency for Sub-programmes A, C1 and D. The Ministry of Health (MOH), Department of Planning, will manage the Health “MDG Performance Facility” (Sub-programme B). At federal level implementation will be done in liaison with relevant sector line ministries, department and agencies including, *inter alia*, the Ministry of Capacity Building (MCB) responsible for the public sector reform efforts as well as the EMCP (the PFM reform programme)\(^\text{13}\); the Office of the Federal and Regional Auditor General (ORAG and OFAG); the Ministries of Education; the Ministry of Agriculture and Rural Development; the Ministry of Water resources; the Ethiopia Road Authority; and the Central Statistical Authority (CSA). Regional sector bureaus and woredas sector offices will responsible for budget planning and allocation across sectors, financial reporting and public dissemination of budget and service facility related information.

**Donors** involved in PBS II are the African Development Bank (AfDB), Austria, the Canadian International Development Agency (CIDA), Kreditanstalt für Wiederaufbau (KfW), the Department for International Development (DFID), the European Union (EU), Spain (ES), the Development Cooperation of Ireland (DCI), the Italian Development Cooperation, the Royal Netherlands Embassy (RNE), and the World Bank (International Development Agency – IDA

\(^\text{13}\) Expenditure Management & Control Reform Programme
. Regular observers are: the International Monetary Fund (IMF), the Japanese International Cooperation Agency (JICA), the United Nation Development Programme (UNDP) and the United States Agency for International Aid (USAID).

Civil Society particularly those working on gender, equity and inclusion issues will be engaged to implement the second phase of Sub programme C2 – Local accountability, expected to start in June 2011.

The End-beneficiaries are the people living of Ethiopia accessing basic services in all PBS II sectors.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

A financing agreement will be signed between the EU and the Republic of Ethiopia. The project will be implemented in joint management through the signature of three agreements with the World Bank that has been managing the implementation of several Trust Funds for the implementation of the PBS programme since 2006, in accordance with Article 29 of the Regulation (EC) No 215/2008 on the financial regulation applicable to the 10th European Development Fund. The international organisation complies with the criteria provided for in the applicable Financial Regulation, in line with the Trust Fund and Co-financing Framework Agreement between the EU and the WB signed on 20 March 2009.

This project proposes to support the implementation of PBS sub programmes A1, A2 and the Secretariat.

Three Administrative Agreements will be signed with the WB:

a) to extend EU support to Sub programme A1 – Block Grant Transfer (EUR 40,600,000) through an extension of the existing Administrative Agreement (MDTF N. 71251)

b) to support Sub programme A2 – Local Investment Grant (EUR 4,000,000) through the signature of a new Administrative Agreement to establish a new multi donor Trust Fund

c) to support the PBS Secretariat (EUR 300,000) through the signature of a new Administrative Agreement to join an existing Multi Donor Trust Fund14.

MDTFs will be managed, monitored and audited in accordance with the Trust Fund and Co-financing Framework Agreement between the European Commission and the WB signed on 20 March 2009. The EU and other participating donors will transfer their contributions into the MDTFs in accordance with their agreed disbursement amounts and schedules and, subject to satisfactory conclusion of the relevant bi-annual Joint Review and Implementation Support Mission (JRIS).

In due consideration of the principle of ownership, the European Commission reserves its right to change the organisation indicated above or the scope of the delegation, without this necessarily requiring an amendment to the financing agreement. In that case, it shall consult the Beneficiary on this change and notify to it the name of the new organisation and/or the scope of the task(s) delegated to it.

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14 Two AAAs must be signed as two separate MDTFs have been previously established with other donors. A PBS Secretariat was established in 2006 to support donors and government for all administrative, reporting and logistics support related to the organisation of joint bi-annual field visits and review missions to facilitate adequate monitoring and adherence to the PBS principles. Past experience has demonstrated that supporting the work of the Secretariat through service contract centrally managed by the EU is not efficient as EU procedure cannot easily be aligned with the programme timing and reporting needs and contravene the spirit of joint management and reduction of transaction cost.
Direct Centralised Management will be applied for the management of EDF funds reserved for joint monitoring and evaluation, visibility, and verification functions. The Delegation of the European Union to Ethiopia will implement those activities.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegate body under, respectively, decentralised, joint or indirect centralised management.

PBS has proved to be fully aligned with the Paris’ requirements, as has strengthened donor harmonisation, reduced transaction costs for governments and donors (with joint reporting, field missions, monitoring and audit reports, etc.) and by using government systems to improve alignment for the bulk of its programme (financial reporting, procurement and audit).

4.2. Procurement and grant award procedures

Joint management with World Bank

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation.

In agreement with the “Principles Applicable to Grants to Multi-Donor Trust Funds” stipulated in the “Trust Fund and Co-financing Framework Agreement” between the EU and the WB, all contracts implementing Sub programmes A1, A2 and PBS Secretariat must be awarded and implemented in accordance with the applicable procedures and standard documents laid down and published by the WB.

Direct centralised management

1) Contracts

All contracts under direct centralised management implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by 10th EDF. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Article 20 of Annex IV of the revised Cotonou Agreement.

2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VII ‘Grants’ of the Financial Regulation applicable to the 10th European Development Fund. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants should not exceed 80% of total eligible costs for Actions financed by other instruments, which establish the possibility (or not) for the
EU to consider such costs as eligible. If full financing provide the justifications for it. Full financing may only be applied in the cases provided for Article 109 of the Council Regulation on the Financial Regulation applicable to the 10th European Development Fund.

4.3. Budget and calendar

The foreseen operational duration is 36 months starting from the signature of the Financing Agreement.

The total project cost is estimated at EUR 2 446 500 000, of which EUR 45 000 000 shall be financed from the National Indicative Programme (NIP) in the framework of the revised ACP-EU Partnership Agreement, EUR 1 500 000 000 by the Government and EUR 901 500 000 by other donors.

<table>
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<tr>
<th>Categories</th>
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<td>1 500 000 000</td>
<td>826 300 000</td>
<td>2 366 900 000</td>
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<td>45 000 000</td>
<td>1 500 000 000</td>
<td>901 500 000</td>
<td>2 446 500 000</td>
</tr>
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</table>

4.4. Performance monitoring

As indicated under section 2.1. Sub-programme A1 – Block grant represents about 95% of overall PBS support and 90% of EU proposed financing. Disbursements for this component are based on the level of performance in project implementation jointly assessed every six months. The JRIS/review includes an assessment of progress on the agreed SAFE principles that help verify whether government resources to regions are (i) maintained or increased; (ii) disbursed to local governments fairly, (iii) accounted for properly, and (iv) have a positive impact on local service delivery. During the JRIS, the quality, timeliness and follow up to financial and audit (continuous and annual) reports are also jointly assessed. The Government of Ethiopia and DPs have also developed a result-based framework (RF) with targets and indicators for each sub-programme based on existing national and sector indicators and targets. This includes a set of 34 indicators measuring the impact and achievement of project objectives and targets. The RF (results-based framework) is regularly updated (conditional to data availability), but so far it is not being used to guide policy dialogue or to determine the level of disbursement.

To respond to increased donor and government interest to prove the effectiveness of PBS in achieving its results, four years from its start, a revision process is now taking place to re-

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15 These projections do not include the planned additional financing from IDA, AfDB and DFID (circa 565 M euro).
16 Each principle can be rated as: highly satisfactory, satisfactory, marginally satisfactory and/or unsatisfactory.
align the list of indicators and targets to the new GTP (taking into account the new population figures from the 2007 CENSUS) and identify Core Indicators with more realistic targets, to be annually jointly reviewed. The Delegation will continue emphasizing the need to assess progress of these indicators as integral part of the regular biannual reviews. Also, as the quality of data in Ethiopia is often questioned, Sub programme D includes a series of sector M&E strengthening activities, the undertaking of independent Data Quality System Assessments in all sectors led by the Central Statistical Agency and ad hoc studies to look at the impact of PBS in delivery quality services. A further development of monitoring tools, in the context of allegations of possible distortion of aid, is being analysed and discussed within development partners and with the Government of Ethiopia.

Regional and sectoral representations, supported by reports and the outcomes of field visit reports presented during the JRIS, provide the opportunity to jointly assess progress and identify challenges in the implementation of all the PBS sub-components, enhancing the dialogue between regions and MOFED, donors and government and across ministries. The drafting of the Joint Aide Memoire provides the opportunity to define all the actions required to speed up implementation and address identified challenges.

No specific indicators are listed in the EuropeAid Standards Indicators for DAC Code 16050.

4.5. Evaluation and audit

In addition to the Financial Audit and Control stipulated in the “Trust Funds and Co-financing Framework Agreement”, PBS II will be regularly audited through the Continuous Audit reports and the Annual Audit reports. The former, developed during PBS I, consist of quarterly review carried at woreda (Ethiopian administrative division) and regional level to assess compliance with PBS requirement and government systems in the management of public funds. The reports have been recently carried out by the Offices of Regional Auditor General (ORAG) supported by the Office of the Federal Auditor General (OFAG). Under PBS II, it is expected that the PBS II will continue having additional fiduciary measures in terms of frequent reporting on fiscal transfers to sub-national levels, PFM and other reform programmes (PSCAP, EMCP, GG and DIP).

For component 3, EUR 100,000 is reserved for monitoring and evaluation and verification tasks.

4.6. Communication and visibility

The main source of visibility is the EU’s involvement in the policy dialogue related to the PBS review missions and other Government of Ethiopia/ development partners high level meetings such as the Donor Assistance Group and the High Level Forum. A provision was made under the previous PBS II FA to finance a communication strategy to be developed under the project period. This is expected to be used to recruit a consultant to help improve PBS visibility and knowledge on its results. The EU Delegation is actively participating in all the PBS Technical Working Groups (TWGs). PBS II will feature prominently in EU communications on its cooperation programme, e.g. in the Europe Day speech, media events for other EU-financed activities and official visits.

Communication and Visibility is also part of the Administrative Agreement with the WB in line with Attachment 4 of the European Commission-World Bank Framework Agreement.
ANNEX II

1. IDENTIFICATION

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>Civil Society Fund II</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FED/2009/022-064</td>
</tr>
<tr>
<td>Total cost</td>
<td>EU Contribution - EUR 6 000 000 (0.8% of NIP)</td>
</tr>
<tr>
<td></td>
<td>10th EDF – Envelope A</td>
</tr>
<tr>
<td>Aid method/Method of implementation</td>
<td>Project approach – Direct Centralised</td>
</tr>
<tr>
<td>DAC-code</td>
<td>15150</td>
</tr>
<tr>
<td>Sector</td>
<td>Democratic Participation and Civil Society</td>
</tr>
</tbody>
</table>

2. RATIONALE

2.1. Sector context

Ethiopia has had authoritarian forms of government for most of its history. Efforts to build a stable and democratic system of governance that ensures the broader participation of its population have started only recently, over the last two decades. Civil society was comparatively underdeveloped during the imperial and socialist regimes, with only a few - mostly international - humanitarian and faith-based organisations focusing on relief, welfare and education.

The EU’s mapping update (2008) showed that there has been a constant expansion and diversification of civil society organisations (CSOs) since the defeat of the socialist Derg regime in 1991, continuing to the present day.

Nevertheless, Ethiopia’s CSOs are still less developed than in some other East African countries, although this country has the second largest population in Africa and a government committed to rapid development and poverty eradication. The mapping study update underlined that Ethiopia has relatively few CSOs which act as catalysts, relays and facilitators for the integration and empowerment of the population, since they are relatively few in number, have limited capacity and are mainly focused on service delivery in traditional development sectors.

The current Government of Ethiopia has recognised civil society as a pillar of national democratisation and development, notably in its key policy document, the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) and its successor document currently under preparation, the Growth and Transformation Plan (GTP, 2011 - 2015). The government recently introduced the Charities and Societies Proclamation No. 621/2009 to replace fragmentary and partial regulation of the sector, dating back to the imperial period. The Proclamation defines the general rights of charities and societies, as well as responsibilities of transparency and
accountability. There is an obligation to maintain registration with the newly established Charities and Societies Agency (ChSA), which will report regularly to the government on progress towards the consolidation and development of the sector. The ChSA has completed the re-registration of charities and societies working at the national level: the most recent data available suggests that there are 1,626 active charities and societies (professional associations) at national level, of which 221 foreign charities, 62 adoption agencies, 22 consortia (including networks), 1,013 'Ethiopian resident' organisations (operating with more than 10% of their annual funds from foreign sources), 97 'Ethiopian' charities and 211 'Ethiopian' societies (both categories not allowed to receive more than 10% of funds from foreign sources). CSO action on specific governance, rights and identity issues is restricted to 'Ethiopian' charities and societies.

Across Ethiopia’s various national regions, there is a broad spectrum with regard to number, variety and relative strength of civil society organisations. Many CSOs have demonstrated good results and strengths, such as piloting basic non formal education, education services at large, health, including HIV/AIDS, rural developments and micro-finance. However, generally CSOs are still relatively weak in terms of management and leadership, administrative systems and material resources. Gender-oriented organisations are particularly weak and few in number. CSOs in the Afar, Somali, Benishangul and Gambela regions are more under-capacitated compared to organisations from other regions of the country and have found it difficult so far to sustainably access donor support. There is a clear need to strengthen CSO abilities to deliver services in all areas and to engage in dialogue, with their constituencies, with each other and with the government representatives at various levels. CSOs need to demonstrate more clearly their representativity and base in society and their professional contribution to governance and development debates. CSOs need to improve their accountability to their relevant stakeholders. Organisations in all categories have considerable unrealised potential to mobilise volunteers and domestic financial resources. They would also be strengthened by a greater awareness of the diversity and gender-specific needs of their constituencies.

The EU and other donors have a well-established engagement with Ethiopian civil society. In accordance with the 9th European Development Fund (EDF) Country Strategy Paper (CSP), the EU is currently funding a 10 million Civil Society Support Programme ('Civil Society Fund I').

The proposed action is a continuation of this engagement under the 10th EDF. It is unique in that the Government of Ethiopia has declared Civil Society Fund (CSF) grants as ‘domestic’ funds for the purposes of the Charities and Societies Proclamation No. 621/2009. This gives the proposed project an unparalleled opportunity to support all categories of organisations according to Proclamation 621, including 'Ethiopian' charities and societies authorised to work on a broad range of development and governance issues. Within Ethiopia’s 10th EDF envelope, EUR 10 million have been earmarked for non state actor (NSA) support. The programme will be implemented in two phases, with two Financing Agreements.
2.2. Lessons learnt

The still ongoing Civil Society Fund I is providing grant and non-grant capacity building support to a wide range of charities and societies.

The 2008 Results Oriented Monitoring (ROM) and the 2009 Evaluation of the programme’s first phase praised the iterative and flexible methodology.

The Evaluation gave the programme high scores in all evaluation areas and noted the high consensus among all stakeholders regarding the project’s positive impact and appropriate methodology. The Fund’s relevance to the problems faced by national non state actors (NSAs) was highlighted in particular. The programme was found to be unique among most donor funded civil society support initiatives in Ethiopia for its tri-partite governance arrangement (Government of Ethiopia, European Commission and CSOs), promoting dialogue and trust amongst partners and for its inclusion of a stand-alone objective to fund institutional capacity building of non-state actors (NSAs). It is still early to assess the full impacts of the CSF I. However, clear trends towards the desired achievements were identified by the Evaluation. These include:

- increased policy dialogue between non-state actors and government (particularly at the regional and local levels);
- increased coordination and networking within the civil society sector;
- increased institutional capacity of CSOs;
- increased partnerships between non-state actors and regional and local government and
- increased awareness and protection of civic rights.

Many organisations having benefitted from CSF I funding have since diversified their income sources and increased their capacity to engage in a wide range of development and governance related activities. CSF I also supported a range of projects to increase and improve delivery of governance related services. A number of projects, particularly at the regional level, contributed to a better understanding of governance issues and a greater awareness amongst different stakeholders of the possibilities for closer collaboration.

The present proposal incorporates several recommendations which the Evaluation suggested could take the programme ‘from good to excellent’. In particular, the representation of non-state actors in the project will be strengthened and diversified. The consideration of regional equity remains valid, but special attention should be given to non-state actors in emerging regions. The partnership approach should continue to be applied but should be accompanied as well by technical assistance on how to work in partnerships. This need for strengthened technical assistance (non-grant support) should be matched with a corresponding budgetary increase. Finally on the CSF’s complementarity with other initiatives, some greater level of coordination with similar initiatives should be explored.

2.3. Complementary actions

The project identification has included a thorough discussion with donors engaged in similar initiatives and careful analysis of these.

The multi-donor Protection of Basic Services (PBS) system is similar to general budget support. It has an important component on social accountability (PBS II,
component 4) which is implemented through non-state actors. The EU is a major contributor to PBS. Alongside the proposed project, this is the only other donor-funded non-state actor support project that incorporates a capacity-building component in the field of governance and which is co-managed by Government of Ethiopia, donors and Ethiopian non-state actors.

The proposed project is complementary to other EU interventions, supported through the Thematic Programmes (Non State Actors & Local Authorities, Investing in People, etc.) and the EDF, such as the Productive Safety Net Programme, the Food Facility (a significant part of which is delivered through non-state actors) and the Women's Empowerment and Gender Equality (WEGE) Project.

Canada, Ireland, Netherlands and Great Britain are preparing a pooled Civil Society Support Programme (CSSP). This will feature a component of capacity building for service delivery in a range of development sectors, but probably not governance, with a strong focus on 'core funding' for organisations.

Due to the co-management of EDF funds with government and its tri-partite governance structure, the proposed CSF II is so far the only civil society support programme in the country whose funds have been declared 'domestic'. This feature makes the EU programme unique in so far as it is the only one able to target all categories of organisations and all intervention areas as listed in Proclamation 621. This uniqueness might attract other donors in the future to pool their funds with the CSF.

2.4. Donor coordination

Coordination and complementarity with other non-state actor support programmes will be ensured through the Donor Assistance Group (DAG) structures, particularly the Governance Technical Working Group and its Civil Society Sub-Group and the Gender Equality Group. In addition to the DAG / Civil Society Sub-Group, the Government of Ethiopia and donors have established a joint sectoral working group on 'Charities and Societies' to monitor the evolving non-state actor environment after the introduction of the new CSO legislation.

3. Description

The Government of Ethiopia has declared CSF II grants as 'domestic' funds for the purposes of the Charities and Societies Proclamation No. 621/2009. This enables the project to support all categories of Charities and Societies under Proclamation 621 able to serve as relays and intermediaries to the citizens and communities that are the final beneficiaries of the programme.

This action fiche contains the relevant information for a first phase of support (2011 – 2014) for EUR 6 million.

3.1. Objectives

The overall objective of the EU Civil Society Fund II is to increase and improve the role of civil society in the national development and democratisation process. The purpose (specific objective) of the programme is to increase the capacity of civil society to engage in governance and development activities.
3.2. Expected results and main activities

The expected results of the programme are: increased human, material and technical capacity of civil society to engage in governance and development; increased sustainability, accountability and constituency of CSOs working on governance and development; and enhanced delivery of services in the governance and development sectors. Some Objectively Verifiable Indicators for these results will be gender-specific.

To address the problems within the sector as described in the sector context above, the project strategy combines grant and non-grant forms of support to civil society.

- **The grant component** will enable a wider range of CSOs to engage directly in governance and development. The calls for proposals (CfP) to be launched under the programme may be targeted to ensure that such activities are also developed in emerging regions and in priority sectors of Government of Ethiopia-EU cooperation, such as environmental advocacy and governance, climate policy, rural development policies, private sector development, etc. Guidelines for CfP will be designed so that gender-oriented CSOs have adequate opportunities to access the Fund. The programme will make full use of the flexibility of the CfP process and use it towards a more programmatic approach. For example, specific CfP could be organised for different categories of organisations according to the result areas of the programme.

- **Non-grant support** will cover a wide range of capacity building initiatives. Considerable support will be given to CSOs through training and coaching. A cycle of training events will be organised on particular areas of Project Cycle Management (PCM), such as Monitoring and Evaluation (M&E), reporting, proposal drafting, gender mainstreaming, etc. which are challenging for new or less experienced organisations, as well as on issues of leadership, constituency and coalition work which are relevant to the more experienced organisations and their networks. Particular coaching and a help-desk function will also be offered, mainly - but not exclusively - for CSF grantees, many of whom will be dealing with donor funded projects of this complexity for the first time. Other non-grant support will focus on the development of abilities to diversify income streams and to better mobilise national resources. Specific additional support will be offered in ‘emerging’ regions. These forms of non-grant support will be designed in recognition of the diversity of non-state actors and to fill certain gaps which cannot be filled with the CfP tool.
• Research activities may also be developed to improve the project’s ability to support the sector, such as an update of the EU’s non-state actor Mapping Study (the last update was done in 2008).

A Technical Assistance Unit (TAU) will be established to assist in the day-to-day management of the Fund. The capacity building measures described above will be mobilised by this TAU. It may have a reinforced temporary presence in ‘emerging’ or priority regions for the fund.

Communication and visibility activities will be included in the grant and non-grant support.

3.3. Risks and assumptions

It is assumed that the Government of Ethiopia will continue to encourage the engagement of civil society in the development and democratisation process of the country. Furthermore, it is anticipated that the recently created Charities and Societies Agency (CSF) will provide guidance for the governance of the sector.

The new CSO legislation has been complemented by the fact that the Government of Ethiopia declares this CSF funding as 'domestic', hereby allowing all categories of organisations according to Proclamation 621 to qualify as potential beneficiaries.

3.4. Crosscutting Issues

The project directly addresses the crosscutting theme of governance. While the sector scope of the project is likely to be broad and responsive to the priorities of the Government of Ethiopia and non-state actors, a significant part of both grant and non-grant capacity building activities is likely to support CSO work that touches other crosscutting themes such as gender equality and environmental sustainability. Following the recommendations of the CSF I evaluation, the crosscutting issue of gender has been addressed at all levels of the project; most results are associated with gender specific Objectively Verifiable Indicators and, where possible, sex disaggregated statistics will be obtained or collected.

3.5. Stakeholders

This programme will work with all categories of Charities and Societies under Proclamation 621 able to serve as relays and intermediaries to the citizens and communities that are the final beneficiaries of the programme. As during the 9th EDF support programme, it is anticipated that international NGOs will play a support rather than leading role, that applications from coalitions and networks of CSOs will be encouraged and that larger and more experienced CSOs will be encouraged to link with and support the development of their smaller counterparts.

Vulnerable groups, such as children, disabled and elderly are under-represented in the Ethiopian non-state actor sector. Therefore, the project will try to encourage their participation. Specific grant operations and non-grant capacity building activities may be launched for them at the discretion of the Project Steering Committee.

The programme will work closely with one or more open membership reference group(s) of non-state actors. One lesson learnt from the 9th EDF CSF is the need to
strengthen NSA representation to reflect all categories which the project seeks to support.

The design of this project incorporated thorough consultations with Ethiopian NSAs and their networks; a wide range of organisations were consulted individually, preliminary proposals for the present project were presented at a session to which networks, leading CSOs and grantees of the previous fund were invited, and a more detailed proposal was discussed with key CSO networks.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

A Financing Agreement will be signed with the Government of Ethiopia. The programme will be implemented under direct centralised management, in accordance with Article 25 of Regulation (EC) No 215/2008 on the financial regulation applicable to the 10th European Development Fund.

This Civil Society Fund II will operate through the launch of calls for proposals (grant support) combined with Technical Assistance (non grant support). A Technical Assistance Unit (TAU) will be recruited through an international tender procedure for this purpose. The main activities of the TAU will include provision of capacity building support to grantees, potential applicants and other non-state actors, coordination, information, research, technical and administrative assistance to the Contracting Authority and serving as Secretariat to the Project Steering Committee (PSC).

The major part of the programme activities will be co-financing of CSO projects solicited through calls for proposals. The specific guidelines and objectives for different calls for proposals will be determined by the Project Steering Committee. An important part of programme activities will be non-grant capacity building, delivered through the TAU.

The Project Steering Committee will provide strategic guidance for the programme and decide on corrective measures if problems arise during implementation. This PSC will have a tri-partite character in view of fostering dialogue and trust among civil society, government and the European Union. It will be composed of representatives from the government, representatives from civil society – which will hold the majority – to be selected by the Delegation and the National Authorising Officer (NAO). It will be chaired by the NAO (in addition to his voting right as PSC member).

4.2. Procurement and grant award procedures

1) Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.
Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ACP-EC Partnership Agreement. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in article 20 of Annex IV of the revised Cotonou Agreement.

2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VII 'Grants' of the Financial Regulation applicable to the 10th European Development Fund.

When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 90%. Full financing may only be applied in the cases provided for in Article 109 of the Council Regulation on the Financial Regulation applicable to the 10th European Development Fund.

The services of the National Authorising Officer will facilitate exemption of VAT and other taxes on a reimbursement principle.

4.3. Budget and calendar

The total budget for the project is EUR 6,000,000. No financial contribution is envisaged from Government of Ethiopia.

The duration of the project will be 72 months (48 months from the signature of the Financing Agreement for operational implementation followed by a 24 months closure period).

Spending will be as follows:

<table>
<thead>
<tr>
<th>No</th>
<th>Budget Category</th>
<th>Amounts in EUR</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Civil Society Fund (grant support through CfP for various categories of non-state actor)</td>
<td>4 100 000</td>
</tr>
<tr>
<td>2</td>
<td>Technical Assistance (non-grant support through service contract)</td>
<td>1 600 000</td>
</tr>
<tr>
<td>3</td>
<td>Audit and Evaluation</td>
<td>150 000</td>
</tr>
<tr>
<td>4</td>
<td>Contingencies *</td>
<td>150 000</td>
</tr>
<tr>
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<td><strong>Total</strong></td>
<td><strong>6 000 000</strong></td>
</tr>
</tbody>
</table>

* The EU contribution to the "Contingencies" heading may be used only with prior agreement of the Commission.
A ‘suspensive clause’ for the launch of the international tender to recruit the TAU will be requested. Consequently, the elaboration of Terms of Reference for the TAU and the preparation of the tender dossier could start as soon as the suspensive clause is granted, to allow for a smooth phasing in of the new TAU whilst the current TAU is assisting the Delegation in winding down the CSF under the 9th EDF.

4.4. **Performance monitoring**

The Contracting Authority will be responsible for day-to-day technical and financial monitoring, assisted by the TAU.

An appropriate internal technical and financial monitoring system will be established, based on that used during the predecessor 9th EDF project. The TAU will present a quarterly report to the Delegation and NAO, focusing on the measurement of activities against objectives and goals as set out in the log-frame of this project.

Independent consultants will conduct external monitoring in the framework of the regular Results Oriented Monitoring (ROM) initiated by Commission Headquarters.

In addition, the EU Delegation will also apply the Joint (NAO+EUD) Results Oriented Monitoring System (JROME) used for all ongoing EU funded projects in Ethiopia.

As far as possible, baseline, progress and comparative measurement of results will be based on the statistics produced by the newly established Charities and Societies Agency (ChSA).

4.5. **Evaluation and audit**

Independent consultants recruited directly by the Delegation on specifically established Terms of Reference will carry out an external evaluation towards the end of this first support phase (first Financing Agreement). A budget of EUR 75,000 has been earmarked for this purpose.

The Beneficiary and the Commission will analyse the conclusions and recommendations of the evaluation towards the end of the first phase, and jointly decide on follow-up action and any adjustments necessary.

An audit provision is foreseen in the budget of the Financing Agreement. External audits will be carried out on the basis of risk assessment within the Annual Audit Plans. A budget of EUR 75,000 has been earmarked for this purpose.

4.6. **Communication and visibility**

Communication and visibility activities will be included in the grant and non-grant support. The individual grant contracts and the Technical Assistance (TA) contract will include budgetary provisions to allow for adequate communication on, and visibility for the Civil Society Fund. A specific EU/CSF logo is already in use under the currently ongoing CSF and is well known by the public. It will most probably be maintained for banners, training materials, letterheads, etc. Special events will be organised under the individual grant contracts – signing and award ceremonies, competitions, etc. in line with the objectives of the individual grants. As under the ongoing 9th EDF CSF, press and media will be associated to these events.
Furthermore, the TA component may be structured to include a reinforced presence in those regions where the experience under EDF 9 showed there was lower awareness of opportunities for EU co-financing of non-state actor activities.
ANNEX III

1. IDENTIFICATION

| Title/Number | Technical Co-operation Facility IV (TCF IV)  
|             | FED/2011/023007 |
| Total cost | EU contribution - EUR 2 000 000  
|            | EDF contribution – A Envelope |
| Aid method / Method of implementation | Project approach – Partially Decentralised Management and Joint management with UNDP |
| DAC-code | 99810 | Sector | Economic and development policy/Planning |

2. RATIONALE

2.1. Sector context

Under the revised Cotonou Agreement, the African, Carribean and Pacific (ACP) countries and the EU have traditionally used a facility for the provision of technical assistance, training support for projects and programmes related activities and for seminars and conferences. The proposed facility aims at supporting the implementation of the current and future Country Strategic Papers in Ethiopia. It is foreseen in the National Indicative Programme (NIP) for the 10th European Development Fund (EDF).

In Ethiopia, there is a clear capacity gap regarding the implementation of European Union financed projects/programmes in the focal and non-focal sectors. This is largely due to the lack of awareness and proper use of the EDF rules and procedures, particularly associated to tendering procedures (but also all other steps of the project management cycle). Underlying reasons for this is lack of staff both at the level of the National Authorising Officer (NAO) and implementing agencies and lack of the necessary skills to prepare, monitor and evaluate projects. At policy level, there are also capacity constraints to effectively undertake multilateral trade negotiations.

2.2. Lessons learnt

Lessons learned from previous projects/evaluations in Ethiopia have identified the following needs:

1) The need to explore alternative options to contract technical assistance (TA) in order to use funds in a more efficient and effective way, such as a pool of expertise under a service contract.
2) The need to place more emphasis on activities like training, conference and seminars, in order to reach more stakeholders and improve quality and speed of implementation. This in turn requires timely and careful planning.
3) Improve institutional dialogue and control between different actors in decentralised implementation.
4) Activities to be financed should be complementary and coordinated with similar activities (technical assistance, studies, conference and seminars, training) undertaken within EU/other Donor/NAO/other counterpart-funded programmes and in line with Donor Coordination efforts.
5) Consider aid effectiveness and visibility component as well as sector policy analysis.
6) Establish a proper planning through rolling programming and regular monitoring of the implementation of Technical Cooperation Facility (TCF) activities.

2.3. Complementary actions

This is not a sector specific programme but provides resources for supporting activities. By nature, this has to be closely associated to similar and complementary supporting activities by other donors, for example as concerns project preparations, studies and conferences. Ensuring such complementarities is one of the objectives of the donor coordination in Ethiopia (see below).

2.4 Donor coordination

Donor co-ordination in Ethiopia is relatively advanced with a formal structure established for Government-donor and donor-donor co-ordination. Presently, the High Level Forum (HLF) is the primary dialogue structure that brings the Development Assistance Group (DAG) members and Government at the level of policy dialogue and it is chaired by the Ministry of Finance and Economic Development (MoFED) at State-Ministerial level. Annual Progress Reviews provide a yearly forum for dialogue on progress in implementing the national development strategy, presently the five-year Growth and Transformation Plan (GTP). The DAG is the main forum for donor co-ordination and policy dialogue in the country, which has Technical Working Groups (TWG) arranged on a sectoral basis. The EU Delegation plays an active role in each part of this co-ordination machinery, and has undertaken a leading role in sector and donor co-ordination in several DAG TWGs. In addition, Article 8 consultation provides an opportunity to discuss more strategic aspects of EU Ethiopia cooperation. The Government is planning to play a more important role in donor coordination in the future, which might be supported by the EU.

3. Description

3.1. Objectives

The overall objective of TCF IV is the successful identification and implementation of programmes and projects funded by EDF, under the present Country Strategy Paper (CSP) as well as preparations for the next CSP.
More specifically, the detailed objective is to strengthen the technical and administrative capacities of
i) the Ministry of Finances and Economic Development, with main focus on the National Authorising Office, as the main Coordinator of the EU external assistance
(ii) other relevant Ethiopian institutions/administrations
in fulfilling their functions and roles in the preparation and the decentralised implementation of EDF programmes.
3.2. **Expected results and main activities**

The specific **results** consist of:

1. strengthened ability of the relevant Ethiopian institutions/administrations to design programmes and/or projects to be submitted for financing in the framework of the EU external assistance to Ethiopia, including preparation of pre-feasibility, feasibility, impact assessment, identification and sector policy analysis
2. strengthened ability of the relevant Ethiopian institutions/administrations to implement projects, in terms of
   a) improved absorption of programmes financed by EDF combined with an increased efficiency
   b) increased effectiveness and impact of projects
   c) enhanced capacity of government, and in particular the NAO office, to implement EDF programmes in accordance with EU rules and procedures;
   d) enhanced capacity to lead, negotiate, mitigate and control
3. improved awareness among key actors in Ethiopia of general development, trade issues and other cross-cutting issues, such as e.g. Growth Transformation Plan, Trade, Governance, PFM, …
4. strengthened aid effectiveness and raised awareness and visibility of EU/ET projects (communication, events, tender publication, etc.)
5. progress in preparations of next CSP/NIP (National Indicative Programme) and 11\(^{th}\) EDF

**Main activities** will consist of:

- expert advice on aspects related to the identification and implementation of projects as well as wider policy areas, forming part of the political dialogue as well as the governance commitments made in the course of the EDF programming process;
- training activities on procedures, management, monitoring and control, etc.;
- conferences, visits;
- functioning support for NAO services (programme estimates);
- studies: these will mainly be conducted in the focal sectors of the NIP, namely:
  (i) Transport and Regional Integration,
  (ii) Rural Development and Food Security,
  (iii) Macro-Economic Support and Governance, as well as in the non-focal sectors of the NIP, namely: Environment, Cultural and Biological Heritage Conservation. Studies will also help preparations of the next CSP/NIP
- contribution to the EU-Ethiopia cooperation in the aid effectiveness process, in coordination with the whole donor group and particularly with EU Member States, with full Government ownership
- promotion of the visibility of EU-Ethiopia cooperation, in complementarity with the visibility action plans of each project and programme
- audit and evaluation of TCF activities

3.3. **Risks and assumptions**

Given the technical support nature of the TCF, risks are limited. The speed of implementation will depend on the demand by the Government/NAO.
3.4. Crosscutting Issues

Gender and environmental perspectives will be mainstreamed in all activities of the project. Studies will be carried out with evaluation of the social/gender and environmental impacts of the future development programmes, and collected data will be gender/environment specific. As the gender/environmental perspective must be reflected in the results of programmes and projects, it has therefore to figure prominently in the formulation and implementation phases, as well as in the evaluation of any CSP/NIP programme. Environmental impact assessments, if necessary, will be carried out within the context of a strategic policy analysis. To this end, it is important that the TAs contracted are competent and knowledgeable on gender/environmental issues. Governance and Human Rights are important cross-cutting issues in EU Development cooperation, and will be included as such in the actions financed under this programme.

3.5 Stakeholders

NAO, Line Ministries and other government agencies; civil society and private sector (insofar as concerned by the respective projects/programmes); EU Member States; other key development partners.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

A Financing Agreement will be signed between the EU and the National Authorising Officer (NAO) of Ethiopia. The TCF will be managed through a mix of aid methods:

- Partially decentralised management in accordance with Articles 21 to 24 of the Financial Regulation of the 10th EDF, through programme estimates and procurements for strengthening the ability of the Ethiopian NAO and Line Ministries to design and implement EU supported programmes.

- Joint management through the signature of an agreement with an international organisation, UNDP for the implementation of the component Aid Effectiveness (strengthening the coordination function of the Donor Assistance Group to increase aid effectiveness in Ethiopia) in accordance with Article 29 of the Regulation (EC) No 215/2008 on the financial regulation applicable to the 10th European Development Fund. The international organisation complies with the criteria provided for in the applicable Financial Regulation. The United Nations Development Programme (UNDP) is covered by a Financial and Administrative Framework Agreement (FAFA). UNDP is in charge of supporting the pooled fund mechanism to support the operating costs of the Donors Assistance Group (DAG), which consists of 27 Development Partners.

Partially decentralised management:

The Commission controls ex ante all the procurement procedures except in cases where programme estimates are applied, under which the Commission applies ex ante control for procurement contracts > 50,000 EUR and may apply ex post for procurement contracts ≤ 50,000 EUR. The Commission controls ex ante the contracting procedures for all grant contracts.
Payments are executed by the Commission except in cases where programmes estimates are applied, under which payments are executed by the beneficiary country for operating costs and contracts up to the ceilings indicated in the table below.

The relevant Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

<table>
<thead>
<tr>
<th>Works</th>
<th>Supplies</th>
<th>Services</th>
<th>Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 300,000 EUR</td>
<td>&lt; 150,000 EUR</td>
<td>&lt; 200,000 EUR</td>
<td>≤ 100,000 EUR</td>
</tr>
</tbody>
</table>

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegate body under, respectively, decentralised, joint or indirect centralised management.

In light of the Aid Effectiveness agenda, the TCF IV activities under the partially decentralised management agreement will take into consideration the need to strengthen government ownership by strengthening the NAO and line ministries' capacities in accessing and managing funds. This will be done mainly by technical assistance to these institutions as well as necessary studies to be carried out in identifying areas where further strengthening of institutions is needed.

**Joint management**

The TCF IV will support the Aid Effectiveness agenda, directly through a Contribution Agreement with UNDP which will be strengthened by the activities carried out through upgrading the NAO's/Government's capacities to prepare and implement EU programmes as listed above. This part of the TCF IV will involve the EU's participation in the pooled fund to strengthen aid effectiveness in Ethiopia by engaging the Donors Assistance Group (DAG). The (UNDP) will be responsible to report as per the rules agreed in the Contribution Agreement (at least once a year).

### 4.2. Procurement and grant award procedures: programme estimates

a) For components implemented by partially decentralised management.

1. Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.
Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by EDF. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in article 20 of Annex IV of the revised Cotonou Agreement.

2. Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VII ‘Grants’ of the Financial Regulation applicable to the 10th European Development Fund. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 80%. Full financing may only be applied in the cases provided for EDF in Article 109 of the Council Regulation on the Financial Regulation applicable to the 10th European Development Fund.

3. Programme Estimates

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimate in question. (i.e. the Practical Guide to procedures for programme estimates).

The EDF financial contribution covers the ordinary operating costs deriving from the programme-estimates.

b) For the aid effectiveness component implemented by Joint management with UNDP:

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation.

4.3. Budget and calendar

The total estimated budget for the proposed actions is EUR 2 000 000 funded through 10th EDF resources. The foreseen operational duration is 36 months as from signature of the Financing Agreement.
<table>
<thead>
<tr>
<th>Categories</th>
<th>EU contribution</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR</td>
<td>EUR</td>
</tr>
<tr>
<td>Activity 1 – Institution Building (incl. TA, studies)</td>
<td>1 250 000</td>
<td>1 250 000</td>
</tr>
<tr>
<td>Activity 2 – Aid Effectiveness (Contribution Agreement with UNDP)</td>
<td>150 000</td>
<td>150 000</td>
</tr>
<tr>
<td>Operations (Programme Estimates including personnel, equipments, conferences, missions as well as communication and visibility)</td>
<td>400 000</td>
<td>400 000</td>
</tr>
<tr>
<td>Monitoring, External Evaluation and Audit</td>
<td>70 000</td>
<td>70 000</td>
</tr>
<tr>
<td>Contingencies *</td>
<td>130 000</td>
<td>130 000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2 000 000</strong></td>
<td><strong>2 000 000</strong></td>
</tr>
</tbody>
</table>

* The EU contribution to the "Contingencies" heading may be used only with prior agreement of the Commission.

### 4.4. Performance monitoring

Day-to-day technical and financial monitoring will be a continuous process as part of the work of the Contracting authority. In addition monitoring will be based on planning which will be discussed at regular meetings between the key stakeholders. The Contracting Authority shall use a permanent internal, technical and financial, monitoring system to the project.

**Measurable Indicators:**

1. At least 75 % of project files include the necessary documentation (eg feasibility studies for identification,).

2. On the date of signature of the Financing Agreement, the project has a provisional calendar of implementation with clear deadlines and responsibilities.

3. Forecasts of commitments and disbursements are provided and updated every 6 months.

4. Within 6 months after the date of signature of the Financing Agreement, at least 80% of forecast notices have been submitted and 40 % of the tenders and the first programme estimate have been submitted.

5. At least 75 % of EU financed projects under the annual programme are implemented in accordance with implementation schedules foreseen in the project fiches.
6. The loss of budget due to delays in implementation and contracting has been considerably reduced, compared to earlier aid programmes.

4.5. **Evaluation and audit**

A final evaluation of this technical cooperation facility will be conducted at the end of the programme. A provision of EUR 70 000 is included in the Budget. The Commission may use this provision to organise an independent verification of the Contribution Agreement.

4.6. **Communication and visibility**

As there is no specific budget line for Communication and Visibility due to the fact that the Technical Cooperation Facility is mainly dealing with institution building through technical assistance, special efforts will be made to ensure the visibility of EU support through events as well as through websites, publication of tenders and other publications as these events and circumstances arise as per EU Visibility Rules.

Specifically, in the decentralised management part, all publication of studies and reports as well as events and tenders will be carefully handled to indicate the role of the EU. On the joint management section with the UNDP, the participation of the EU to the pooled fund to support the Donor Assistance Group with furthering the Aid Effectiveness agenda will be well publicised on the websites as well as any events and reports that emerge out of the work that the technical assistants engaged under the pooled funds will carry out.