

"FICHE CONTRADICTOIRE"
Evaluation of the Commission's support to Ethiopia (2004 - 2008)

	Recommendations:	Responses of Commission Services:	Follow-up (one year later):
1	<u>Aid effectiveness performance:</u> Prescribe a policy dialogue organization compatible with EC objectives and instruments		
	Strategic recommendations:		
1.1	<p>Prescribe a differentiated organisation for policy dialogue in accordance with the corresponding levels of authority in the partner government.</p>	<p>Policy dialogue is not only an EU delegation matter; it must be done in coordination with other development partners. With this regards, the EU plays a role in facilitating common positions amongst the development partners and as the EU as a whole (EC + EU Member States). The EU has been instrumental in putting the aid effectiveness on Government agenda. Also, the EU is currently engaged in an EU joint programming exercise which will impact the way EU is dialoguing on sector policy issues.</p> <p>Whilst policy dialogue on Macroeconomic and structural issues as well as sector policy dialogue remain a key challenge in Ethiopia, it is worth noting several on going initiatives: the existing Article 8 dialogue with the Prime Minister and line Ministries. Also a regular discussion on macro issues has been taking place in the framework of the PBS II program (see also 1.2).</p>	<p>The annual High Level Forum and a series of thematic Article 8 dialogue meetings have taken place in the last year, showing a growing commitment of the authorities to regularly discuss with donors, including the EU.</p> <p>In the sphere of private sector development, which was previously an issue that was difficult to put on the agenda, great strives were made to improve this situation through the establishment in May 2012 – and with encouragement of the GoE – of the EU Business Forum to Ethiopia. The EUBFE is a network of 300 EU companies active in Ethiopia that works under the tutelage of the EU Delegation and has had an active dialogue with the authorities –including at the highest possible levels (PM, governor National Bank, various ministers) – on issues related to the business climate in Ethiopia.</p> <p>As part of the PBS 3 design, it was agreed that MOFED will identify a proper channel to discuss macroeconomic issue at high political</p>

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			level. Until that is established, quarterly technical macro meetings with MOFED and National Bank of Ethiopia representative, IMF and PBS donors will continue as in the past.
1.2	Focus high-level policy dialogue platform only on fundamental options (building a regulated partnership with the main agents of market forces and with other non-state actors). Resuming GBS would contribute to the creation of such a platform, notwithstanding that its priority level in the EU's overall strategy is changing.	<p>It would be difficult to implement a GBS considering the strengthened EU governance requirement for such instrument, the opposition of MS, and the opposition of the Government who rejects any form of conditionality, intrinsic to GBS. Greater acceptance and scope exists for sector budget support and related policy dialogue.</p> <p>For PBS (Protection of Basic Services) it should be noted that a regular exchange of information (every 6-8 weeks) on macroeconomics at technical level is on-going. These involve key PBS donors (WB, EU, ADB, DfID), the IMF and the National Bank of Ethiopia and the Ministry of Finance and Economic Development. Discussions as to whether PBS should remain the platform for such a macro discussion or whether this should be held elsewhere are on-going within the framework of the PBS III design and DAG restructuring. Common donor stance is that PBS may not necessarily be the right place for such a dialogue, but in the absence of a concrete suggestion from the authorities to utilize another forum it will remain in PBS III.</p>	The new EU instrument for general budget support, the Good Governance Contract, has increased entry requirements for GBS. Ethiopia does not qualify as it does not meet several of the governance requirements. Hence, the implementation of the recommendation has moved further in to the medium-long term. However, as part of the XI EDF programming, the DEL has included a continuation of its road sector budget support in the first 11 th EDF period, while looking at the possibility to develop a Sector Reform Contract in the Health sector as well as possibly in the sustainable agriculture sector in the second half of 11 th EDF programming. As indicated above, during the negotiation it was agreed that PBS should – in principle – no longer be the main platform for macro discussion. GOE proposed to have policy dialogue with IMF only or as part of the HLF; donors requested for a technical group to be established to inform the discussion during the HLF. In the absence of a mutually satisfying agreement on the matter (current situation), PBS will continue to provide the framework for

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			<p>the macro dialogue. Finally it is to note that the dormant GOE-DP Public Finance Management working group has been revitalized. Quarterly joint meetings under the chairmanship of the State Minister of Finance are held since 2013 to discuss policy, systemic and strategic issues related to Financial Management, Procurement and Audit</p>
1.3	<p>Scale up the volume and quality of EU internal and outsourced inputs in policy dialogue, mainly upstream programme operational issues.</p>	<p>As said under 1.1, the EU is currently engaged in an EU joint programming exercise. This will enhance the quality of our dialogue with the Government; which will impact positively the upcoming programming exercise for the 11th EDF. The intention is to provide a reinforced and coordinated EU response to the national development agenda. As part of this process the EU (EC+EU Member States) has provided a common position with regard to the first GTP Annual Progress Report published in March 2012.</p>	<p>The EU Joint Programming process has evolved over time and been extended to Norway (making it an EU+ JP exercise). One of the first key products has been the EU+ Joint Cooperation Strategy (which constitutes the EU+ joint response to the GTP) formally adopted in January 2013 together with a roadmap committing EU+ partners to work towards improving the impact and effectiveness of their development assistance through improved alignment, harmonization, managing for results (e.g. by developing an EU+ common results framework), predictability and mutual accountability. This, together with a number of studies planned in the framework of the EU+ Joint Programming, should substantially improve and deepen the EU+ policy dialogue with the Ethiopian authorities. Also for the 2nd Annual Progress Report of the GTP, the EU+ has provided a common position to the GoE.</p>

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	Operational recommendations:		
1.4	Within the Budget Support (BS) approach, keep available at sector level an unallocated budget of the order of maybe 2% to cover expertise or short-term Technical Assistance (TA) needs for either informing the EU side of the policy dialogue or for responding to beneficiary requests for studies or specific international advice.	Within SPSP III formulation a significant amount has been allocated to Technical assistance (5,7%).	The final amount allocated for the Technical Cooperation Component represents 5,4 % of the total SPSP III allocation (49 MEuro). Drafting of the ToR and consultation with GoE' stakeholders are ongoing. The contract is expected to start in the 2 nd quarter of 2014.
1.5	Invest more resources in Protection of Basic Services (PBS) with a view to innovating new ways of entrenching decentralised legitimacy. The local investment grants piloted in the previous phase hold significant potential for both increasing such legitimacy and stimulating more citizen– government engagement and dialogue, which in turn may be more effective in promoting social accountability.	The PBS III design has suggested the introduction of a Results Innovation Fund (RIF) that could go in the suggested direction. It should be noted that this Fund is still under discussion with the authorities. As regards Local Investment Grants, this has been surpassed by other developments (notably the establishment of an MDG fund managed by the authorities). It is mainly for this reason that PBS III will no longer contain a LIG component.	In line with the recommendation of the country evaluation, the EU contribution to PBS 3 has indeed increased to Euro 73 Million (for 2 years). Additional financing may be provided as part of the XI EDF. The planned RIF is now being finalized and will initially be financed by DFID on a pilot basis. Additional important elements have been introduced in PBS 3 related to transparency and accountability (especially the support to local parliament, to Grievance Review mechanisms and the introduction of 3 independent evaluation missions during implementation)
1.6	The EU should take a strategic decision on either its engagement in several programmes in the 'sector' or concentrate on PBS. Given the strong focus on PBS, there are strong arguments for concentrating on making PBS the main vehicle for supporting decentralised service delivery and promoting local accountability. This would also be consistent with the division of labour agenda.	The EU continues to have a variety of instruments to support Growth and Transformation Plan's goals. However in the context of 11 th EDF preparation it will be verified which EU instrument is more suitable and advisable to use, which one has the greater leverage in terms of dialogue and also results.	This recommendation has been superseded by new realities on the ground. Whilst the DEL jointly with GOE argued for PBS to become a focal sector under the XI EDF, the new programming guidelines require a strict focus on one narrowly defined sector. PBS –which is a multi-sector support program ensuring the improved access

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			<p>and enhanced quality of basic services in the areas of health, education, agriculture, rural roads – has not been accepted as being in coherence with these guidelines. Instead, the EU will concentrate mainly on Health (although – within the framework of its support to the health sector – the EU is likely to continue to allocate part of the health funds to finance PBS). The selection of health was done following a review of financial needs, performance to date on the health MDGs and EU+ presence/complementarity in this and other social sectors.</p>
1.7	<p>Advocate strongly for systematically involving Civil Society Organisations (CSO) in government programmes supported through General BS, Sector BS or PBS-like interventions (service delivery as well as encompassing policy issues (participative design, rights-based policy initiatives) and social accountability) in order to help CSOs survive, develop their capacity, and enhance their credibility as government partners.</p>	<p>The EU is supporting civil society and working to restore their credibility; EU is co-chairing the sector working group on civil society on behalf of the DAG. Through the flagship program "Civil Society Fund", the EU is supporting initiatives aiming at improving CSOs sustainability and capacity. In addition to the Civil Society Fund, the Program "Protection for Basic Services" includes a social accountability component aiming at supporting activities which enhance community and citizen voice in basic services delivery. Also, CSOs are implementing partners of significant projects in the following areas: rural development and food security, Environment, Water and Sanitation and Energy.</p>	<p>The EU continues to support civil society and is working to restore CSO credibility. The EU is co-chairing, with the Minister of Federal Affairs, the Civil Society Sector Working Group (CSSWG), bringing Government, CSO representatives and Donor Partners together around the table to discuss CSO matters and challenges. In this framework we are currently discussing some changes to the legal framework to improve the enabling environment of CSOs.</p> <p>The EU Delegation confirms what has been reported last year on the Civil Society Fund and the other sectorial programs, and continues working through these programs.</p> <p>To note further that under PBS 3 the</p>

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			Ethiopia Social Accountability Program has been extended and expanded, with more than 40 local NGOs implementing budget literacy and social accountability at the community base level.
1.8	Consider including the Ministry of Works in the co-chairing of the Transport Sector Working Group (TSWG): chairmanship rotation or allowing three co-chairs.	The Ministry of Works was previously involved in the sector dialogue being the hierarchical superior of the Ethiopian Road Authority. After the institutional reshuffle in 2010, ERA is currently under the umbrella of the Ministry of Transport. We consider that this institutional set up responds well to the sectoral dialogue needs.	The latest meetings have confirmed the willingness of the Ministry of Transport to chair the TSWG and a new State Minister has been recently appointed. The EU co-chairs the TSWG since 2006. The working group's ToR has been recently re-drafted and should be approved in the fourth quarter of 2013.
2	Implementation performance: Modify the allocation structure within sectors in the next programming cycle to strengthen EC advocacy capacity and involvement in regional integration and sectoral institutional reforms		
	Strategic recommendations:		
2.1	Increasingly mainstream democratic governance and the addressing of the root causes of conflict issues in regional integration, first as a matter of advocacy and then through regional programmes; this would support conflict management and peace-building at regional level, notably through	This is the approach envisaged for the the 11 TH EDF. The EU Delegation to Ethiopia actively takes part in the preparation of programs which have a regional impact, notably the IGAD regional cross-border biodiversity and energy programs. The Biodiversity program has a focus on the cross border (Ethiopia-Sudan) Gambella National	The EU Delegation confirms the continuation of its work reported last year and is contributing to the ongoing discussions on the programming of the EDF 11 RIP, arguing –amongst others – that democratic governance and root

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	natural resources (mainly water) joint management, for example with South Sudan.	Park.	causes of conflict will be addressed in the RIP.
2.2	Increase the share of resources to innovative partnerships between the local government and the CSOs within BS programmes.	See response to recommendation 1.7	See response to recommendation 1.7
2.3	Increase the share of resources outside BS, so as to allow more flexibility in answering emerging needs and for scaling up the quality and reliability of the EU's contribution to monitoring systems and policy dialogue platforms.	Under the SPSP III a significant amount is reserved to TA. Also see reply under recommendation 1.4.	See reply under 1.4 as regards the TA component of SPSP III. The road sector budget support foreseen under the 11 th EDF will continue to emphasize TA, in particular to allow to sustain the results obtained in the sector over the last few years.
	Operational recommendations:		
2.4	Improve monitoring of governance quality at service delivery level. There are significant achievements in the quality of governance at that level which have been maintained at comparatively high levels. However, there are signs that accountability chains (e.g. between service providers and their clients) are weakening, not least in emerging regions. To anchor firmly and sustain the important afore-mentioned achievements, it will be important to ascertain the key reasons why most regions can maintain high quality governance at front-line level while others have more difficulty. This could also inform a wider global audience, not least as too many countries face serious governance challenges.	The Financial Transparency component of PBS is all about making information on budget, expenditure and results public via simply templates posted in all key public institutions (and in the future in the all service delivery point). The Social Accountability component of PBS is aimed at strengthening the demand-side/ capacity of citizen to make local service providers accountable for the use and allocation of public funds. Strengthening of M&E capacity at sub national level will be a key new feature of PBS 3 (under design).	The EU Delegation confirms what has been reported last year and continues to contribute to the initiatives mentioned. In fact, a new generation of CSO implemented social accountability programs have been launched at the beginning of 2013. Also as part of PBS 3, additional resources have been included under <ul style="list-style-type: none"> - the Financial Transparency component to expand knowledge and transparency on budget, procurement contracts and audit findings. - the Managing for Result components where a series of survey and independent studies will look at the quality of services and availability of staff, as well as continue to conduct Data quality assessments to improve the quality of administrative data gathering

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			and sharing.
2.5	Complement increased funding with a focus on enhancing evidence-based learning and advocacy opportunities. While the PBS has recorded unprecedented achievement in the core social sectors, there are still concerns about the reliability of the figures. It is important to improve the integrity of the data in maintaining the legitimacy of the substantial support provided and to provide learning opportunities. Such opportunities will be further enhanced if the PBS is subject to an independent evaluation of its impact.	The increased focus on M&E and getting the data right has been taken up in the PBS III design. In strong collaboration with the Central Statistical Agency, Data Quality Assurance Framework have been developed and will be rolled out in all five basic sectors to verify the strength of MIS system, identify weaknesses in training, data collection, collation, reporting and utilization. An independent review of the PBS assessing the relevance and effectiveness of the instrument has been carried out in 2012. Globally, the Review comes to the conclusion that the PBS is a very relevant and effective instrument to achieve its objectives.	In addition to improvements made in the Management for Results component and the inclusion of a proper Evaluation framework (that will have independent evaluation every 2 years plus an end-of-term evaluation), two additional reviews have been included to better monitor the performance and quality of the services delivered at sub-national level: the Equity review (that will look into gender and geographical disaggregated data to assess differences in access and utilization of services) and the Sustainability review (to look at the level of financial and human resources used and needed to ensure good quality of service in the medium-long term).
2.6	Focus on the single most relevant, reliable and cost effective governance indicator for social service delivery: absenteeism rates (e.g.. teachers and health workers). While being present in the post does not in itself guarantee quality outcomes, it is an indispensable precondition that is often overlooked. There are well-established and cost-effective methodologies for producing such data and it is therefore suggested that the EU promotes this aspect within the PBS.	A teacher absenteeism study is ongoing under PBS II, a similar study is being developed for Agriculture extension agent, to be undertaken in PBS II. Under PBS III additional studies to look at quality, equity in access to service delivery are under discussion with GoE.	In addition to what has been indicated in section 2.4 and 2.5, the PBS3 result framework matrix has been finalized and includes now indicators on civil servants employed in the five sectors, disaggregated by gender and region. In addition, quantitative service delivery indicators (SDI) survey, teacher and agriculture agent absenteeism studies (yet to start due to procurement issues), poverty and social impact assessment and poverty mapping are all being planned as part of PBS 3
2.7	The viability of the road Sector Policy Support Programme (SPSP) performance evaluation	The Performance Evaluation Framework of the Road SPSP is a valid tool for policy Dialogue and the ERA	The PEF is based on the Ethiopian Road Authority (ERA) data which are

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	<p>framework as a tool for policy dialogue is fundamentally dependent on the reliability of the baseline data and on achievement of targets in disbursement dossiers. There should be an improvement in the type of data collected by Regional Road Authorities (RRA), which should be independently checked and analysed by the consultant appointed to elaborate the disbursement dossiers. National average data should not be considered as valid since regionalised data, that can be checked, are neither checked by Ethiopian Roads Authority (ERA) nor transmitted to the EU. The Transport Poverty Observatory, funded by the World Bank, publishes annual results that should be used, without extrapolation, to crosscheck ERA figures.</p>	<p>data are viable for budget support purpose. Data collected at the regional level have not been relevant for BS so far.</p> <p>Transport Poverty Observatory collected data refer to Adaptable Programme Lendings and cover limited samples linked to WB financed road projects.</p>	<p>considered reliable concerning both accuracy and precision, by the EUD and all the stakeholders involved in the sector, as explicitly confirmed by two external reviews conducted in 2009 (FWC 2009/214972 and 2013 (SPSP II Evaluation Mission).</p> <p>Further PEF assessments will be part of the SPSP III Technical Cooperation Component and performed within the preparation of the disbursement dossiers. One specific external mission to review the quality of data will be carried out to support the preparation of the disbursement dossier for the variable tranche.</p>
2.8	<p>Increase the reliability of crop data and food security information to strengthen feedback on the outputs and outcomes of the Productive Safety Net Programme (PSNP). The first steps already undertaken with EU support to establish a food security information system should be followed up.</p>	<p>In the framework of the reinforced cooperation on Food Security between EU and US, an independent crop production survey has been carried out. The results should feed in the policy dialogue and discussions with MoA and CSA.</p>	<p>In addition to the independent crop production survey mentioned one year ago, one of the mechanisms established to generate information on the outputs and outcomes of the PSNP is the Impact Evaluation exercise undertaken every two years by IFPRI. The recent Impact Evaluation undertaken in 2012 has revealed that:</p> <ul style="list-style-type: none"> • Participation in the public works component of the PSNP increased food security by 1.48 months between 2010 and 2012; • Environmental improvements through public works have improved farm productivity and contributed to livelihood diversification. In some

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			instances, cereal production has increased two to three fold The Mid-Term Review (MTR) of the PSNP, conducted end 2012, rated progress towards achieving the PSNP Outcome as "Satisfactory".
2.9	An evaluation should be launched on DEVCO Framework Contracts (FWC) to identify major shortcomings (covering for example issues such as structural shortage of experienced experts, standardised ToRs, normative timetable, quality control mechanisms, etc.). More reactive and flexible mechanisms should facilitate a more comprehensive response to emerging needs and a higher level of expertise.		An evaluation of the functioning of the Framework Contract BENEFC was carried out in 2010 by the AIDCO Internal Audit unit. Recommendations were formulated and actions consequently taken including on issues mentioned in the recommendation. A new, strongly modified version of the FWC BENEFC is now in the contracting stage and is expected to be operational by the end of 2013.
3	Implementation performance: Reconsider the overall balance in EU financial support between food security and agricultural development by focusing progressively on the graduation process and subsequent phases of households' accumulation of agricultural assets		
	Strategic recommendations:		
3.1	Increase the comprehensiveness of EU involvement in the agriculture sector to tackle the longer-term, more dynamic and more complex process of strengthening livelihoods to the extent that households become food secure on a sustainable basis.	The EU is providing technical and financial support through its different financing instruments to address the agricultural and food security needs of the country in a sustainable way: EDF, Instrument for Stability, Water and Energy facilities, Environment and Climate change Budget lines, Food Facility are mobilized in Ethiopia. <u>Some examples:</u> Good achievements have been observed from the recently completed 13 Food Security NGOs projects: increased access to agricultural inputs (seeds, fertilizer etc.); income diversification opportunities, increased access to rural credit services	Building on the experiences and lessons learned from the implementation of the Food Facility projects, six projects are under implementation with financial support (€13.75 M) from Instrument for Stability. The objective of this intervention is to enhance the social and economic stability in the drought affected areas through supporting the recovery of livelihoods of the population affected by the 2011 drought and building their resiliency. These projects

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		<p>and marketing; development of small scale irrigation schemes, and livestock production & productivity mainly in pastoral areas.</p> <p>Other relevant on going initiatives: support for Agricultural Marketing Development in Ethiopia (10 MEUR) aiming at supporting agricultural marketing development in Ethiopia.</p> <p>Improving and Integrating Animal Health Services in the Livestock Value Chain through Public Private Dialogue in Ethiopia (10 MEUR) aiming at adding value to livestock commodity production chains by the integration of strengthened animal health, advisory and regulatory services, supported by effective dialogue between private and public stakeholders.</p> <p>Scaling Up of Participatory Forest Management (PFM) 6 MEUR, contributing to the sustainable management of Ethiopia's forests in order to improve food security, strengthen the rural economy and reduce environmental degradation.</p> <p>Two new initiatives started implementation in 2012: 1) FSTP - Innovative approaches to food insecurity (2.2 million Euro) focusing on Micro Finance and long term FS through support to the household assets building, targeting PSNP beneficiaries. 2) the Instrument for Stability (€13.75 million) supporting recovery actions in southern and eastern drought affected areas. The SHARE initiative is under Preparation.</p>	<p>are contributing significantly to the enhancement of livelihood options of beneficiaries and strengthening their resilience to shocks. Apart from this, the preparation of SHARE initiative (€50 M), which aims to enhance social and economic stability of vulnerable populations in Southern and Eastern Ethiopia through supporting the recovery of their livelihoods and building their resiliency, is approaching its final stage and activities are anticipated to start early 2014. This initiative is closely integrated with ECHO interventions in the same geographic area to strengthen LLRD approach.</p> <p>Other on-going projects financed from the 10th EDF are progressing well contributing to the achievements of the targets set in the Government development agenda, the GTP.</p> <p>In the ongoing programming exercise for the 11th EDF, it is proposed to consolidate interventions started under the SHARE initiative to further strengthen resilience capacity of the most vulnerable population in Ethiopia. Support to the Productive Safety Net Program (PSNP) is planned to be continued as well as support to nutrition needs; while making the gradual trans. In line with the recommendation from</p>

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			the evaluation report, 11 th EDF support will seek a balance between productive, marketing and protective and resilience support.
3.2	<p>Increase the share of capacity-building in the EU's direct or indirect (through supporting local governments) contributions to PSNP. This may help i) avoiding the frequent delays in food and cash payments; ii) making adequate and timely adjustments to the value of cash transfers; and iii) improving the quality of works. This requires refocusing on improving PSNP management, communication and reporting. The EU should, together with the other development partners (DP), use the Financial Management Taskforce of PSNP for working out solutions which help overcome the financial management problems leading to delayed payments to PSNP beneficiaries.</p>	<p>The capacities of local governments are progressively being built through the dedicated institutional capacity building budget of the program. Moreover, rolling trainings are provided annually on financial management, procurement, Public Works planning and implementation and creation of continued awareness on Program Implementation Manual (PIM). These trainings have contributed to the improvement in the efficiency and effectiveness of program implementation.</p> <p>Automation of the payment system through the application of the payroll and attendance sheet (PASS) software, which is now used in almost all woredas has significantly reduced the time it used to take to prepare payrolls manually. This has resulted in remarkable reduction of delays in cash and food payment to beneficiaries.</p> <p>A Wage Rate Study (WRS) is carried out every year in order to inform Government's and DPs' decision for the need to adjust the cash payment. Accordingly the cash wage rate has been adjusted every year to enable cash beneficiaries to cope with rising food prices and inflation. The recent WRS has recommended application of a 'variable' cash wage rate across regions and it is anticipated that this proposal will be considered by Government for the next season.</p> <p>The establishment of the joint GoE-Donors Financial Management Taskforce has considerably improved the financial management of the PSNP.</p>	<p>-Establishment of the FMTF and active involvement of DPs in the taskforce, including the EU, has remarkably improved the quality and timeliness of financial reporting of the PSNP. Since 2012, MoFED has been able to submit quarterly interim financial reports (IFR) within the timeframe set for report delivery. Rolling annual trainings on FM have also contributed to this improvement.</p> <p>-All PSNP woredas are effectively using the PASS system which significantly reduced the time required to prepare payroll for PSNP beneficiaries from 17.7 days in 2010 to 7.7 days in 2012. The time needed to make payment to beneficiaries has decreased on average from 38.9 days in 2010 to 22.2 days in 2012 indicating the improvement made in resource transfer.</p> <p>-Revision of the cash wage rate has been on-going to establish parity between cash and food entitlement of beneficiaries based on recommendations of the Wage Rate Study. As the result the cash wage rate has reached ETB 21 - 23/person/day in 2013 depending on market situation of regions.</p>

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4	Strategic response and programming: Adjust the strategic framework and the content of policy dialogue to overcome limits faced in promoting institutional reform and democratic governance		
	Strategic recommendations:		
4.1	Integrate local government capacity, democratic governance and treating root causes of conflicts strongly in the next CSP strategic response as building blocks for overall effectiveness, implementation performance and long-term sustainability. Meta-outcome indicators should be attached and prioritized in Mid and End-term Reviews, using a baseline analysis agreed with the partner government.	This is the approach envisaged for the the 11 TH EDF.	The EU Delegation confirms what has been reported last year and has actively worked in the envisaged direction in the on-going programming process. Governance will be a key pillar of any sectorial intervention and – in complement – a governance facility is scheduled to address cross-cutting governance challenges that are relevant for all sectors of the 11 th EDF.
4.2	Increase the focus of EU support to local government capacity-building like within a renewed framework from the Public Sector Capacity-building Program (PSCAP).	Discussions on the design of a successor to the PSCAP program (of which phase I will end at the end of 2012) are on-going.	The government has terminated the PSCAP program in 2012 and has clearly indicated that it considers the institutional set-up of PSCAP (6 sub components working in very different fields ranging from justice, to PFM to revenue reform, IT, HRM and local government capacity building and managed by the Ministry of Civil Service) to be inadequate. While discussions are on-going with the government to design separate programs for some of the PSCAP old components (with PFM and – to a lesser extent – public administration reform being the most advanced, local government capacity building (including PFM) is currently mainly conducted through the EC's support to the PBS program.

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4.3	Combine systematic alignment on Government programmes and innovative approaches through CSOs within National Indicative Programme programmable resources when reviewing and designing support strategies and the aid modality mix.	As said above the EU delegation is advocating for a greater role of Civil society in the Country's development. This is done through dialogue and development cooperation programmes (the Civil Society Fund, NGOs projects funded under the Thematic Instruments). The policy mix (channeling aid through both governmental and non governmental channels) will be continued.	The EU Delegation confirms what has been reported last year and continues to work in the way described last year. The EU is increasingly advocating, beyond its extensive support to CSOs, for its systematic involvement in policy making.
4.4	Adjust the Country Strategy Paper template or dedicate an addendum to allow the EU and the government to develop their respective arguments on non-consensual views in sections presenting the context and the lessons learned. Strategic response should be jointly agreed.	Format for programming has changed. No CSP anymore. The EU response planned in the context of the joint programming will be shared but not discussed with Government. That recommendation would have been useful for the MTR but not at the current stage of ETR (10 th EDF).	For the 11 th EDF programming the programming guidelines do not – in principle – foresee a CSP. The first phase of the 11 th EDF programming has confirmed that the GTP can be used as a basis for the programming exercise. It is however to be mentioned that in the framework of the EU+ Joint Programming process, an EU+ joint response to the GTP in the form of an EU+ Joint Cooperation Strategy has been adopted.
4.5	Raise the level of priority given to quality of service delivery in the education and health sectors in high-level policy dialogue.	Donors are placing increasing emphasis on quality of all services, and recently also GOE (as spelled out in the GTP). In addition to quality focused programmes like GEQIP and MDG Health Fund (not supported by the EU). PBS 3 intends to more effectively engage with GOE on discussion and monitoring of quality in service delivery.	In addition to improvement made under PBS3 to better monitor access, utilization and quality of basic services, the EU has developed a new project focused on supporting the MDG Health fund as well as supporting access to and demand for maternal and newborn health service. This will increase its policy presence in the health sector (Enhancing Safe Delivery in Ethiopia), which will in turn facilitate policy

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			dialogue in this domain.
	Operational recommendations:		
4.6	Take the opportunity of significant reorganisation of the response strategy to mobilise additional financial resources to design rapidly an appropriate revised strategy. This would avoid dependence on readymade options not necessarily consistent with the Cotonou Agreement and the specific EC partnership with ACP countries.	Few resources have been mobilized for the preparation of 11 th EDF programming because of time constraints and resistance from the Ethiopian Authority to mobilize significant resources within the TCF.	In addition to mobilizing a range of consultants to support the delegation in the drafting of the first and second phase of the 11 th EDF programming as well as – more generally – the EU+ joint programming process that runs in parallel to the 11 th EDF programming, the Delegation has mobilized over the course of the last 12 months a number of Headquarter missions (mainly for the sustainable agriculture and food security and health focal sectors) and TA missions (mainly for sustainable agriculture and food security and infrastructure (energy) focal sectors) to thoroughly review, reflect on and design an appropriate response strategy.
4.7	Consider continuing and even increasing EU financial support to the transport sector so as to consolidate the achievements it contributed to. But ensure that transport as a whole is covered, and not roads only. Transport services should be fully integrated into a comprehensive policy framework, most likely defined by updating the transport master plan study in order to support renewed policy dialogue.	EU financial support is at the moment dedicated to the Road sector. The contribution to the whole transport sector will depend on the results of the policy dialogue with the Ethiopian Institutions. Transport Services are part of the sector dialogue. An update of the transport master plan could be planned for the 11 EDF; however AdB has already announced to do it in a next future.	The SPSP III builds on the experience of previous phases and is intended to consolidate the results so far achieved in the road sector. Monitoring of the implementation of National Policies will be part of SPSP III and necessary follow up activities will be considered for the 11 EDF, including a possible support to the transport sector as a whole. The Integrated Transport Master Plan has been recently finalized by the MoT and its approval by the Parliament is due shortly (draft not disclosed yet).

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4.8	Re-open, based on an international comparative study of the Civil Society regulatory framework, dialogue on democratic governance and provide an independent assessment of the effects of the 2009 Charities and Societies Law and its implementation to date. It would make sense to have the study funded under European Instrument for Democracy and Human Rights (EIDHR) if its procedure allows. This would underline the will of the EU not to abruptly abandon the strategic response jointly agreed with the GoE in the last two CSPs.	An update of the CSO mapping study carried out in 2008 is planned under the second phase of the Civil Society Fund.	The CSO mapping study will be carried out by the end of 2013 jointly with the Civil Society Support Program. The EU has raised, with Government, problems arising from the implementation of the CSO law and regulations, with an aim of changing the most constraining implementing provisions.
4.9	Civil Society Fund's objectives and selection criteria should be revised in the light of the new regulatory framework imposed on CSOs. It should notably define ways and means of contributing to enhancement of CSOs' credibility as government partners, opening the way to a Good Governance and Development Contract.	The Financing Agreement of the second phase of the Civil Society Fund already foresees that the calls for proposals will target the different categories of CSOs created by the Proclamation ("Ethiopian" and "Ethiopian Resident")	The call for proposals launched in the second phase of the Civil Society Fund's framework includes one lot targeting specifically the Ethiopian Charities and Societies, and Consortiums of such organisations, allowing them to work in capacity development and service delivery in key governance areas, including gender equality. In addition, as mentioned under 1.2, with the new guidelines on budget support increasing the entry requirements for a good governance and development contracts it is unrealistic to expect in the short to medium term Ethiopia being able to qualify for this aid modality.
4.10	Accelerate efforts aimed at strengthening the capacities and bargaining position of local governments with a focus on promoting more collective action of local governments vis-à-vis the federal government. In the long term, this could pave the way for an association of local	Strengthening of local government capacities is a persistent feature of both PBS and PSCAP programs, including by providing opportunities to learn from one another.	See answer under 4.2. Currently the EC's contribution to PBS constitutes the main modality to support local government capacity building on a range of issues, including notably PFM (FM, Procurement, Audit, Financial

	Recommendations:	Responses of Commission Services:	Follow-up (one year later):
	governments in Ethiopia. Experience from other countries (e.g. Uganda, Rwanda and Kenya) in the region could offer several learning opportunities.		transparency), and at regional government level providing capacity building support to strengthen parliamentary oversight and grievance mechanism.
4.11	The EU should invest in defining a conflict prevention strategy adjusted to the very varied situations of unstable ACP countries, beyond post-conflict or Linking relief, rehabilitation and development (LRRD). Further explore mainstreaming as an appropriate way of articulating the link between development and the root causes of conflicts. The main issues to integrate into this approach would be decentralisation and equity between regions in access to infrastructures and services.	This is the approach envisaged for the 11 th EDF.	The EU Delegation has embarked on a strategic analysis of Ethiopia so as to increase its understanding of the drivers for change in Ethiopia, in order to allow for an increased impact of its assistance by designing its 11 th EDF program in a way that it is better embedded in the country's decision-making context.
5	<u>Strategic response and programming:</u> Move towards the Good Governance and Development Contracts defined by the Communication on « The Future Approach To EU Budget Support To Third Countries » (COM(2011) 638/2). Ethiopia is probably the best case for this new approach.		
	Operational conclusions:		
5.1	PBS was the only politically-feasible mechanism available in 2005. But its weaknesses are now becoming increasingly apparent. Despite its robust performance in terms of service delivery improvements, it provides too weak incentives for alignment and is not an adequate policy dialogue platform. In the formulation of a Good Governance and Development Contract, care should be taken to discuss the objective of the GBS (which should have a strong focus on poverty reduction) and the mechanism for release and suspension of GBS, to avoid a situation similar to that in 2005. In particular attempts should be made to safeguard GBS from becoming again a hostage	This recommendation is in contradiction with previous and following ones that recommend an expanded EU engagement in PBS. Moreover, the recently independent PBS review contradicts the finding of the evaluators, highlighting the strength of the instrument in terms of aid effectiveness, alignment as well as technical dialogue on key service delivery issues (including PFM, macro, and decentralization). Recent analysis and discussions with the Member States show that conditions are not in place to revitalize GBS in Ethiopia (see also reply provided under point 1.2). Given its effectiveness, the PBS review rather suggests that PBS should be supported in the medium to long term, rather than being abandoned for other instruments.	The reply from the EU Delegation one year ago is still valid. The GGDC is not applicable to Ethiopia due to its entry governance requirements that have been further increased as compared to the old GBS instrument. PBS 3 still remains one of the main and more effective implementing instruments in the country to support poverty reduction and delivery of basic services. The perceived lack of policy dialogue has been partly off-set by the revitalization of the PFM Sector Working Group, the thematic and cross-cutting Article 8 dialogues and the

	Recommendations:	Responses of Commission Services:	Follow-up (one year later):
	to issues unrelated to its poverty reduction objectives.		active dialogue at sector level, although a proper forum to discuss macro-economic issues is still missing (gap-filling continues to be done within the framework of PBS). As part of the SPSP 3 the Delegation has been able to increase the dialogue on transparency of the budget, with more information now posted on the MOFED website.
5.2	In the short to medium term, maintain and deepen engagement in PBS with the strategic aim of eventually converting PBS support into a Good Governance and Development Contract. PBS has proved the most effective channel for supporting the government's efforts to improve access to education and health services. It will be an important signal to both government and other DPs that, while preparing the Good Governance and Development Contract, the EU keeps committed to the PBS programme and views it as the core mechanism for channeling support to the social sectors.	This suggestion, which seems to be contradicting the suggestion by the evaluators made in 5.1, will be discussed under the 11 th EDF programming framework. The suggestion to maintain/deepen PBS engagement in the short to medium term is in line with the conclusions of the mentioned PBS independent Review.	As already stated in point 1.2, GGDC is not an option for Ethiopia in the short to medium term. The preparation of new BS guidelines has moved this prospect to an even further time horizon. However, as part of the 11 th EDF programming, the EU included the possibility to explore the possibility to develop a sector reform contract in the Health sector as a mechanism to support basic service delivery in this sector.
5.3	Enhance the ability of PBS to absorb current attempts at fragmentation. This is probably one of the most ambitious recommendations, especially given the limited interest some of the other major DPs have displayed recently. However, PBS needs to reassert its credentials in terms of bringing about the same benefits as GBS, and the EU is arguably the only major donor in PBS that harbours such an ambition and possesses enough weight to make it a reality. This will involve expanding the scope of PBS to capture support to the core line ministries involved in the PBS sector,	<p>Firstly, the weight of the EU as PBS donor should be clarified: the EU is the fourth PBS donor after WB, DfID and ADB.</p> <p>PBS was developed as a substitute for GBS and it cannot incorporate the same features. According to the recent independent Review (2012) PBS remains relevant and effective in its objectives and its design.</p> <p>It would be difficult to revitalize GBS considering the strengthened EU governance requirement for such instrument, the opposition of MS, and the opposition of</p>	<p>The reply of the EU Delegation last year still holds. In addition, it is to be mentioned that, fully aware of the importance of strengthening linkages with/between the five sectors, PBS 3 provides for:</p> <ul style="list-style-type: none"> - additional financial support to strengthen M&E capacities at sector level; - additional studies and collaboration with sectors to better understand constraints in access, utilization and

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	in particular health and education. Additionally this will enhance the likelihood of translating PBS into GBS.	<p>the Government who rejects any form of conditionality, intrinsic to GBS.</p> <p>While PBS III design does seek strengthening of linkages with the discussions and sectoral dialogues taking place in the 5 basic services covered by the instrument, it follows the recommendation of the independent PBS review to clean the instrument from direct sectoral interventions.</p>	<p>quality of basic services; - additional staff allocated to the PBS Secretariat to follow dialogue and implementation issues in the five sectors.</p> <p>During negotiations donors have reiterated to the authorities the need for senior level engagement in the PBS management; as a response sector state ministers have attended the bi-annual review meetings and sector specialists participate to the thematic field missions.</p>
5.4	Maintain in a given sector several aid modalities when moving towards budget support, in order to introduce more flexibility and responsiveness to the partner's demands with the aim of strengthening its policy framework or targeting newly-identified capacity development needs. National Public Financial Management rules are far less flexible than the EU allocation procedures under the project approach, leading to an inability to tackle emerging issues during the three years of a SPSP programme.	See 2.3	The choice of continuing PBS but also starting a more focused support to the Health sector, and increasing our attention to rural roads within the SPSP3 go exactly in the proposed direction.