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Ethiopia: Aid, Ownership, and Sovereignty

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Ethiopia: Aid, Ownership, and Sovereignty

Xavier Furtado and W. James Smith[1]

When Ethiopia first entered into relations with donors in the 1950s[2], it did so as a sovereign state—one that had been established, in varying forms, for several hundred years—with its own domestic governance structures. In this respect it was quite unlike most other aid-recipient countries, which began receiving aid upon independence in the mid-1960s, in a context of weak domestic policy-setting structures, and almost as an extension of colonial/mother-country relations. One of the implications is that the act of entering into relations with aid donors tended to be seen by Ethiopians at the time – and still is - as a meeting of equals. Government is therefore more assured of its own directions, of its entitlement to set the development agenda, and of its stature vis.a.vis donors than are the governments of many other low-income countries.

At the same time, Ethiopia has historically been somewhat isolated, and at times isolationist, having had relatively little interaction with outside world. With the exception of the brief, and failed, Italian attempt in the 1930s, highland Ethiopia has had no colonial experience, and generally limited trading relations with the outside world. The official apparatus is, therefore, not particularly comfortable dealing with outsiders; and historically has not been particularly comfortable in dealing with outsiders openly. There is a tendency to be somewhat closed and reserved, which can be perceived by donors as an unwillingness to engage in transparent discussions and policy dialogue. These factors, combined with the heavy preponderance of emergency relief assistance in the aid basket, fundamentally condition the aid relationship and, in turn, affect how the government perceives and manages aid dependency.

Until recently Ethiopia has received relatively low levels of development assistance. This is to some extent because there was no former colonial power that felt compelled to provide bilateral support; but also because following the revolution of 1974 Ethiopia was perceived as being on the 'wrong' side during the cold war. The aid that was provided has been channeled largely to humanitarian and famine relief efforts. Thus, despite obvious need, per capita aid levels are far below those of most low-income countries. In 2004/05, for example, Ethiopia received US$15 per capita in development assistance, compared to US$49 per-capita for sub-Saharan Africa as a whole.[3]

There are some additional attributes of the Ethiopian system that differentiate it from other donor recipients, and which affect the flow of government-donor and donor-government influence. One is the federal system, under which seven Regional States have a great deal of autonomy – at least in theory – for delivering most health, education, water supply, and transport services, the sectors that typically account for much of aid-financed activities; and to whom much of the budget is transferred in the form of block grants.

The second is that a culture of discipline and performance pervades government and the civil service. As a consequence corruption and leakage are generally low, and service delivery systems usually function, in a way that they do not in most other very-low-income countries. For example, teachers show up at schools and teach, and immunization teams get out to remote areas and actually deliver vaccination services. At the same time there is a seriousness of purpose to the government. Once it decides that something is a priority it acts on implementing it. And while slow, and at times reluctant, to come to agreement with donors, once agreement has been reached programs or policies are implemented – again unlike the situation in many aid-dependent countries.

Thirdly, Ethiopia is one of the few countries in the world still consistently receiving substantial quantities of food aid, and this somewhat distorts the aid picture. Such humanitarian relief has averaged about $330 million per year in the recent past[4], and accounts for almost a third of all donor inflows. These large levels of relief assistance involve little discretionary power on the part of government to influence donor behaviour; and given the fixed aid budgets of donors, almost certainly come at the expense of greater developmental aid to Ethiopia.

I. The Aid Story 1950-2005

Understanding the historical evolution of aid in Ethiopia - and especially the stop-start nature of aid flows, and on-again/off-again nature of government-donor relations - is central to appreciating how aid dependency is perceived, and managed.

As noted above, Ethiopia was one of the earliest developing countries to receive aid in the modern sense, starting in the late 1940s. There was a slow build-up in aid levels during the 1950s and '60s, which was disrupted by the revolution of 1974, when Emperor Haile Selaisse was deposed. Aid was resumed during the Derg regime (1975-90), but at low levels, as western donors struggled with the ideology of the state, its perceived alignment with the Soviet Union, and the at times repressive nature of the regime. During this time, relations between donors and the government were often fractious; but in terms of agency, there can be little doubt that the government set its own agenda.

There followed a period of prolonged civil war, associated with both resistance to the Derg and the liberation struggle in Eritrea, which culminated in the overthrow of the Derg and establishment of the current government in 1991. Aid levels once again began to grow, and in the mid-1990s the donors committed to substantial increases in aid to support an agreed-upon set of sector programs, most notably in the health and education sectors

In 1998 however, war broke out between Ethiopia and Eritrea, and bilateral donors largely withdrew aid – leaving the sectors programs unfunded[5]. This episode did substantial damage to donor-government relations, and created a deep-seated sense that the donors were unreliable partners. After peace was re-established in 2000 the donors began a slow return, but it took a long time for trust in the donors on the part of the government to be re-established.

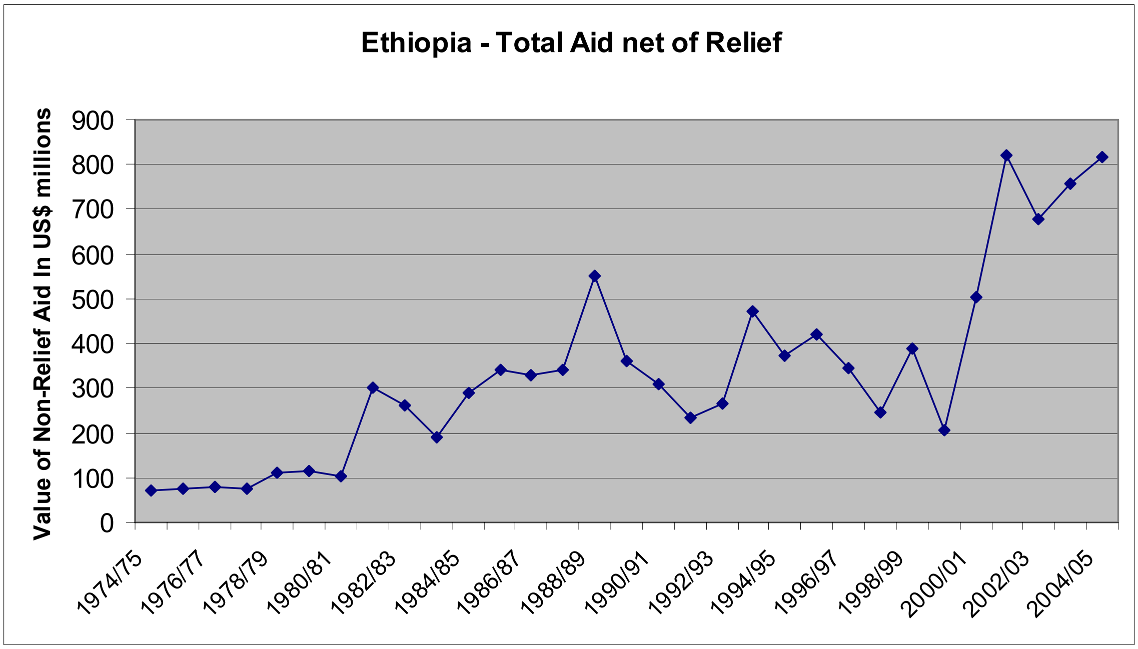
This was followed by a very substantial increase in aid (2002-2005), partly in the context of the MDGS, and as donors belatedly recognized that Ethiopia's development status justified much higher levels of assistance than had been delivered in the past, with several bilaterals choosing Ethiopia as a country of focus. As a result average aid inflows as recorded in the budget approximately doubled from 2000 to 2004 (see graph). This growth has been accompanied by a shift to new modalities – particularly untied budget support – and new mechanisms for managing government-donor relations. However the story does not end there: with civil unrest following the 2005 national elections, donors have recently largely withdrawn direct budget support, resulting in yet another rupture in both aid flows, and government-donor relations.

The Aid Picture

It is difficult to say with precision how much aid Ethiopia receives because, as in many developing countries, much financing is provided outside of official government channels. In the recent Public Expenditure Review[6], we calculated that in 2002/3 Ethiopia received approximately US$ 800 million in aid, and about half as much again from off-budget sources. (These include, for example many bilateral donors who do not channel their funds through the government budget; NGO activities, and, increasingly, new semi-official donors, such as the Global Fund. These sources, and their implications for aid management, are discussed in the following section.) Figure 1 shows aid received annually over the past 30 years, and clearly illustrates both the high variance in aid flows over time, and the recent big increase in aid levels.

An incidental benefit of the relatively low historical aid levels is that Ethiopia has not been subjected to the same proliferation of donors, and large number of uncoordinated bilateral and NGO initiatives that have plagued many other aid-dependent countries, resulting in less diffusion of government control of the development program (At least not to the same extent as elsewhere, although the number of donors, and of such projects, is increasing in recent years)

Ethiopia has historically received a fairly low proportion of bilateral aid (exclusive of emergency relief), and a generally higher proportion of multilateral aid. Over the past five years bilateral sources have accounted for about 45 percent of aid, (based on the UNDP data), and multilateral sources for 55 percent. The largest multilateral donors were IDA (about 53 percent), the UN system (particularly UNICEF and UNDP, with WFP providing substantial emergency relief), the European Union (17 percent), and the African Development Bank (11 percent). The largest bilateral donors historically have been the United States, Japan, Italy, and Canada (in that order), followed in almost equal shares by Germany, the Netherlands, Norway and Ireland.



Note: data are available only in current US$, so the figures tend to over-emphasize the increase in real aid levels over a long time period – especially during the period of high US$ inflation in the early 1980s.

In terms of donor coordination, no single donor dominates. The World Bank provides the largest share of financing, and has historically had a special relationship with the government (partly because the Bank stayed in when bilateral donors pulled out during the war.). As in most countries the UNDP and the World Bank have generally taken the lead in in-country donor coordination, although leadership has to some extent been shifting to bilateral budget support donors in the last few years. The United States is by far the largest bilateral donor, but does not play a particularly dominant role in donor coordination activities. Donor coordination mechanisms are discussed in more depth in Part IV, but broadly coordination takes place at three levels: (i) sector groups, which are of varying strength and effectiveness, generally being most active in the social sectors (unusually, most sector working groups in Ethiopia do not involve the Government as a member, but serve only to manage consultation among the donors); (ii) broad country-level fora, such as the Development Assistance Group (DAG), which includes all donors, but serves more as a forum for consultation than for actual coordination of aid funding or activities; and (iii) more focused, and selective groups, such as that which handles the policy_dialogue around direct budget support, or the joint donor-government group on public financial management.

The composition of aid had been shifting in recent years, with a growing proportion of bilateral assistance as individual countries increased their commitments to Ethiopia. In particular the UK, Canada, Italy, and the Nordic countries have significantly increased aid levels since 2001. There has also been a shift from loans (which provided about half of financing until recently) to grants, largely as a result of IDA's move to provide all-grant financing in conjunction with the enhanced HIPC initiative. Finally during the 2004/05 fiscal year approximately ETB 3 billion (US$ 360 million) was provided in the form of budget support. The presence of large discrete budget-support operations, and the very large (and unpredictable) levels of emergency relief, contribute to substantial year-to-year fluctuation in aid levels – making it difficult to generalize about the composition of aid over a relatively short time-frame.

Aid spending has been spread fairly uniformly across the sectors. More generally, as already noted, there has been a shift to budget support and program-type interventions in recent years, mirroring the wider shift in donor behaviour worldwide; although much of the program financing (for example in support of the health and education sector programs) is still provided in the form of project assistance. Aid tends to align well with government priorities, though it is frequently disbursed over a wide range activities. To the extent it is concentrated, aid supports core social sector activities and infrastructure, areas where there is relatively little disagreement between donors and government. The effect of this donor financing of basic services, combined with the increase in direct budget support, has been to allow the government to spend more of its own money on capital projects, and on services on which the donors are not always in agreement - such as the expansion of technical and university education, the building of health facilities, and urban infrastructure.

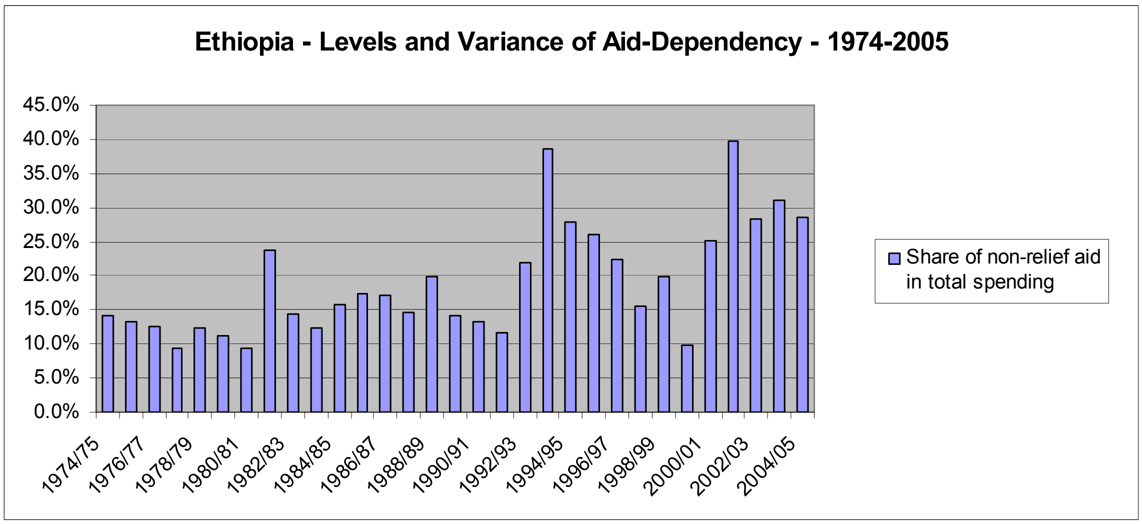
Donor involvement in, and influence on, the budget process is very limited. More generally the Government has adopted the view (widely supported in Ethiopia more generally) that it does not want outsiders `in the kitchen`. This view has implications for the degree of comfort in providing budget support, discussed in more depth in Part IV.

How Much Does Aid Matter?

Measuring aid dependency is problematic, but as a rough indicator the share of public spending financed by aid is as good as any. Using the same data set, we calculate that foreign aid (excluding food relief expenditures), has varied between 25% and 40% of total public expenditure in recent years[7] (Figure 2). Over the period since 1974/75, however, it has averaged only 19% of public spending. This is explained in large part by the low levels of development aid during periods of political turmoil, described earlier; but it accounts, to some extent, for the relative independence of thinking of the Ethiopian government in dealing with donors; historically donors have just not been that important as a source of financing - at least not compared to other heavily-aid-dependent countries. The data also illustrate the fact that the increase in the importance of aid in financing the budget is relatively recent, and that - if it is sustained - we may be in a transitional period regarding the way government and donors interact.

Note that once we add the off-budget donor flows (estimated at another US$400-500 million p.a.) and relief aid, this changes the picture painted above to some extent, with the share of foreign financing in total public spending rising from around 31% of budgeted spending in 2004/05 to an estimated 40%.

The basic story-line that emerges is thus that aid dependence has varied a lot over time, but that it has been increasing in recent years. This has implications for the subsequent discussion, since there is a dynamic, and still-evolving, story on government-donor relations. The second salient fact is that aid levels have historically been low, and that this is in part explained by the historical factors cited earlier, and in part by the relief aid story. Finally, and perhaps most importantly, is the fact that the stop-start nature of aid flows – triggered by political factors – explains much of variation in public expenditure in Ethiopia [8], causing delivery of programs to suffer, and undermining government's confidence in the donors, and its belief that it can effectively manage donor flows. A corollary of this is that – beyond a point - the government does not so much aim to manage aid flows but rather to act independently of them.



How much flexibility does Government have in financing its development program?

Domestic revenue is probably close to the limit (16% of GDP). Although revenue is targeted to rise, in a $100 per capita income economy there is little surplus to tap, implying significant aid dependency if government is to pursue its current ambitious plans for major investments in infrastructure, and scaling up to meet the MDGs (which call for about a three–fold increase in public expenditure over the next 10 years). The Government is pursuing a multi-pronged approach to solving this problem. First, it is seeking support from non-traditional donors (China is an example) who, it is presumably hoped, will provide financing with conditions related to to domestic policies and politics than current donors. Second, it is appealing for a scaling-up of aid from traditional donors on the grounds of MDG achievement and absolute need, plus a track record of good management. Third, it is instituting additional revenue measures (with a target of 17.8% of GDP by 2010). Fourth, it shows signs of relaxing its historical fiscal discipline to some extent (for example public spending rose by 21% in 2004/05, with greater recourse to domestic financing to cover the gap).

The national elections of May 15, 2005, and the ensuing political violence and political turmoil, are resulting in a number of significant changes to how the donor community is engaging with Ethiopia. While there was no evidence to suggest that the Government of Ethiopia had become any less focused on poverty alleviation, the post-election violence raised concerns regarding the quality of the policy and institutional environment into which donors had been providing increasingly large forms of discretionary support, such as GBS. By November 2005, donors were planning to provide approximately US$375 million in GBS, with plans to raise GBS disbursements to US$500 million in the following fiscal year. In withholding GBS resources, Ethiopian authorities were left with insufficient resources to meet sectoral spending targets.

The level of trust between donors and the Government deteriorated quickly. Ethiopia's relationship with the international community became acrimonious as embassies insisted on the release of imprisoned opposition leaders and the Government repeatedly insisted that those imprisoned had broken the law and that their cases should be handled through the courts. In the February 2006 discussions with donors, the Ministry of Finance argued that donors had failed to fulfill their commitment to provide predictable support based on an objective assessment of the Government's performance to date. After some consideration, donors did take the opportunity to design an alternative support programme (the Protection of Basic Services project) to compensate the GoE for the unanticipated loss of budgetary income while also addressing some longstanding issues that had bedeviled policy discussions around GBS. The project is discussed below.

II. The Political Context

Ethiopia is a young democracy. Its ongoing political evolution is a relatively recent phenomenon which began with the violent end of Emperor Haile Selassie's reign in 1974 and the rise of the Marxist regime of Colonel Mengistu Haile Mariam (the Derg). While Ethiopia's political institutions -- e.g., the existence of multi-party legislatures at the federal and sub-national levels -- might suggest to some the existence of a longstanding federal democratic system, a closer examination reveals a country (and political system) in transition – one reminiscent of Eastern Europe after the Cold War.

Since the fall of the Derg in 1991, Ethiopia's politics has been dominated by the Ethiopian People's Revolutionary Democratic Front (EPRDF), a coalition of political parties from several ethnic-based regions and dominated by the Tigray People's Liberation Front which led the armed struggle that overthrew the Derg. Until the country's third national election in May 2005, the EPRDF dominated all legislatures, assuming almost 90 percent of the 547 seats in the House of Peoples' Representatives (HPR). The long-term dominance of the EPRDF resulted in a high degree of asymmetry between the EPRDF and opposition parties. As a result, habits of democratic debate and negotiation are not fully formed, and the political system is characterized by a high degree of confrontation and insufficient negotiation and policy accommodation. This has affected the development of Ethiopia's political institutions, which lack basic mechanisms to facilitate cross-party collaboration around common policy agendas.

Ethiopia's political system, its governing structures and its policy-setting mechanisms reflect two competing pressures. While Ethiopia is pursuing further decentralization, the EPRDF maintains a highly centralized decision-making structure and control over policy formulation. These simultaneous tendencies towards centralization and decentralization have helped the Federal government retain control over its core policy agenda (in areas such as food security, agriculture, liberalization and the role of the private sector), while holding sub-national governments responsible for the implementation of important social sector policies.

With the fall of the Derg in 1991, Ethiopia began to implement a radical policy of administrative decentralization involving the current nine (originally twelve) newly created Regional governments and two special administrative areas. While the 1995 constitution ensures that the Federal government retains the mandate to set over-arching national policies in a variety of sectors, Regional governments are provided considerable autonomy and latitude in deciding how budgetary resources are to be allocated, including many of those sectors that the government defines as central to poverty reduction (e.g., health and education).[9]

While Ethiopia's governance and administration may be becoming increasingly decentralized, the policy and decision-making structures of the EPRDF remain highly centralized.[10] Certainly the Council of Ministers --- nominally the highest policy-making body --- is a key forum for policy-making across a wide array of important sectors. However, in order to truly understand the policy-making process in Ethiopia, one must account for those institutions within the executive and the EPRDF that play central roles in setting national policy, such as the Prime Minister's Office and the EPRDF Central Committee.

The result is a policy-making system that can bypass important consultative/representative institutions (such as the HPR), while putting significant responsibility for policy implementation on sub-national institutions. While this may be a deliberate strategy on the part of the Federal government to 'divide and rule' and limit donor influence over central policy questions, it also reflects tensions between centralized authority within the ruling party and simultaneous pressures to decentralize administrative decision-making in order to win public support. As a result, it is difficult for donors to fully grasp the political incentives for reform and align their assistance accordingly.

Government's Development Vision and Policy Agenda

Growth has generally been weak, with per capita GDP growing at only 0.3% p.a. over the period 1961-2003. This is in part due to the disruptions caused by multiple political upheavals, in part due to inappropriate policies, and in part to the fundamental resource-population imbalance. Despite some recent successes (GDP growth of 5% p.a. over last 5 years) per capita consumption has remained stuck at around US$100 annually, and has only recently risen above the levels it had reached previously in the 1970s.

The government's policy stance has been driven, historically, by a concern with rural areas and a generally state-centred view of development. The EDRF, the ruling party, grew out of a peasant-supported guerilla movement, and has been strongly influenced by these roots – until recently focusing very much on the rural economy and population. The mainstay of policy for the past 10 years has been ADLI – the Agricultural-Development-Led Industrialization strategy - which saw the growth of small-scale agriculture as leading to industrialization through backward and forward linkages. This was married with a strong sense that government, and government Ministries, were responsible for delivering services in all sectors (including in areas generally covered by the private sector elsewhere, such as industrial development, finance, and agriculture), and for being the main agents of change and development.

The statist agenda and strong centralized system has doubtlessly brought some benefits: the focus on rural areas and agriculture is appropriate in a country where 80% of the population are subsistence farmers; the functioning civil service systems, low corruption, and progressive land re-distribution during the Derg, are other examples. But there has been a general failure of this model on the economic front, reflected in (again, until very recently) limited private sector investment, and ossified systems in some of the productive sectors - contributing to the very weak economic growth referred to earlier.

Although a lot has changed in the past five years, there is still skepticism within government regarding the role of the private sector. There is a general preference for co-operatives, party-owned firms, and state enterprises on a scale seldom seen elsewhere any more (for example in 2002/03, 73% of large-scale manufacturing industries were still in the public sector). Generally the government has resisted moves towards liberalization, however, as elsewhere, there are divisions within Government and the Party, with some elements supporting more rapid change, and others resisting it. (Examples, and the impact on government-donor dialogue, are discussed below). Resistance to liberalization is based on a complex web of factors. To some extent it is rooted in legitimate concerns, such as the desirability of phasing reforms slowly to avoid adverse welfare consequences, especially in the absence a robust domestic private sector (eg. the opening up of fertilizer marketing); to some extent in retaining control (eg of internet and telephone), of protecting revenues and influence of public bodies; and to some extent it is rooted in ideological bias.

Ethiopia's first PRSP, the Sustainable Development and Poverty Reduction Program (2001-2004), and was largely a re-affirmation of the ADLI strategy and on-going sector and capacity-building programs. The PRSP process started in 2000 as a donor project. As in other countries, it was mandated as a requirement for HIPC eligibility, and for continued World Bank and IMF support. The Government of Ethiopia initially took the view that it already had its own strategy (consisting of the Party platform, ADLI, and 5-

Year Plan), and the PRSP was largely seen as another hoop to jump through to satisfy the donors.

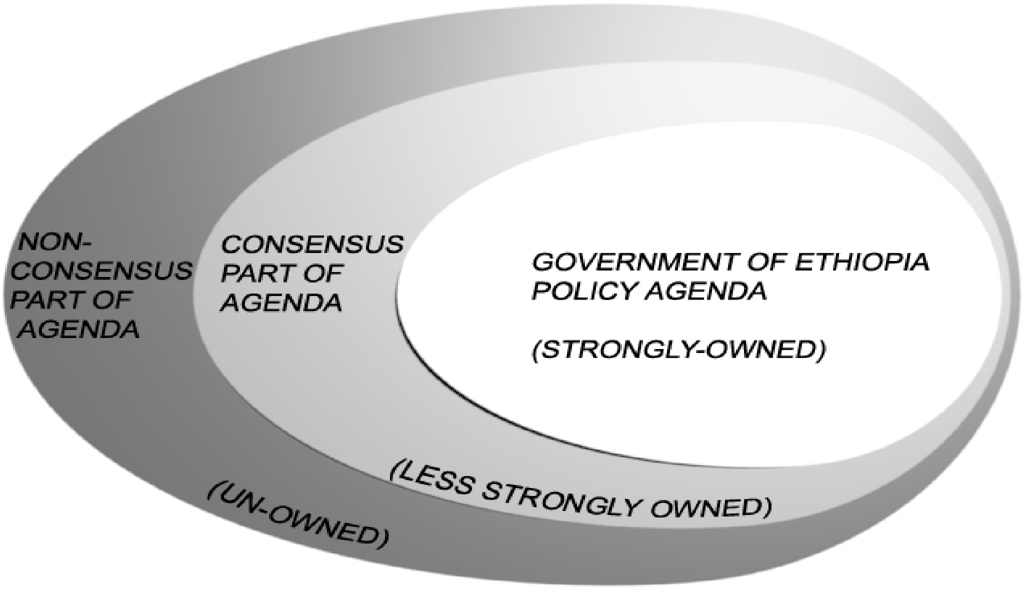
Increasingly however the process has become domestically owned, especially within government. For example there has been a substantial process of discussion and internal consultation on preparation of the second-generation PRSP (The PASDEP – or Program to Accelerate Sustainable Development to Eradicate Poverty) which has involved wide-ranging discussion within Government Ministries, with the Council of Ministers, and Parliament, so even if not fully representative, it is certainly regarded as an Ethiopian creation. The PASDEP also involves a shift in emphasis, with a greater focus on growth, and the signaling of an agenda in which the private sector plays a larger role.

The PRSP in Ethiopia is now partly a 'national project' in terms of defining a comprehensive national development strategy; partly a response to donor expectations; and partly a simple aggregation of existing sector plans and programs. At the broad level, it provides a platform for agreement on donor support, and signals some movement towards increased convergence between donor and government perspectives.

III. Government-Donor Relations in Ethiopia

We have tried to construct a conceptual framework for thinking about the trade-off between aid and ownership confronted by the GoE. In this framework (illustrated schematically in Figure 3), there are three overlapping spheres of policy and programming, characterized by their differing degrees of government and donor ownership and influence. There is a core domestically-owned agenda (and in Ethiopia this is quite comprehensive, and strongly-owned). There then exists a part of the development agenda – negotiated at the margin with donors – that is more-or-less mutually agreed; which is somewhat less-strongly owned by government, (and is somewhat less large than the donors would like). Finally there exists part of the development program that is wholly donor-originated (either in terms of policy reforms, or in project activities), which enjoys almost no ownership, but has nonetheless been adopted under aid agreements. [In Ethiopia this part is, in our view, substantially smaller than elsewhere. As a result there is stronger *ownership* (and therefore greater probability of effectiveness and implementation); but also less of what the donors want in the program; and maybe therefore less consistency in donor commitment - a point to be explored later in the paper, and in the conclusions.

Figure 3 – The Aid-Ownership Frontier



This framework probably applies to most aid-recipient countries, but given the strong sense of self-determination that characterizes Ethiopia, and the relatively weak and recent role of the donors, it is particularly relevant to the Ethiopian case.

The core section of the policy agenda that is strongly-owned includes the Government's approaches to agriculture, economic management, the pace of liberalization and its commitment to improving basic social services (especially in rural areas). On some of these there is common ground with the donors – for example on much of the primary education agenda, and on the importance of food security measures. On others there is much less agreement. Examples include the approaches to the financial sector, industrial development, or agriculture, where donors in general do not share the Government's views regarding the role of the state as the prime service delivery agent and instrument of change.

At the other end of the spectrum are policies embraced entirely by the donor community but which are not shared by the government, or enjoy very little government support. This is the 'non-consensus' part of the agenda, in Figure 3. Examples include: liberalization of the fertilizer distribution system (where donors have been pushing for change for many years); the financial sector (where donors would like to see the state assume a less dominant role for the large state-owned banks, and some competition from foreign banks); or telecommunications (where donors argue for an end to the monopoly of the state-owned telephone corporation and internet service provider). In this category there are also projects and technical assistance initiatives which have been designed and launched by donors; some of which the government may grudgingly have accepted, but which enjoy little or no ownership.

In between there is a range of policies and programs on which there are varying degrees of agreement. Examples include the very large technical and vocational training program launched by the government. While donors agree there is a desperate need for more trained manpower, they are concerned with the size of the program, with the quality, relevance and effectiveness of the training being provided by the public system. Another example is the expansion of health infrastructure: the government is committed to a massive program of constructing new health posts and hospitals, while health donors generally feel that there is little point in building new facilities if they cannot be adequately staffed or supplied. These disagreements are difficult to resolve as Ethiopia is starting from so far behind that there are legitimate needs in almost every sector, and the differences between donors and the Government are really ones over relative priorities (e.g., spending on universities versus primary education), how much can be afforded at once, and over preferred modalities and interventions. In the end, the donors have relatively little influence, as their money and attention is largely absorbed in the sub-sectors where they are most active, and where there is less disagreement (for example in basic education).

Examples of some contested policy issues:

Telecommunications: All telecommunications (including internet and mobile phone services) are provided by the government-owned ETC. On the basis of experience elsewhere donors have been encouraging liberalization – to introduce competition, lower fees, expand service levels, and tap private investment capital to free up the pressure for public financing of expansion. The Government has been reluctant, partly because ETC generates substantial revenues, partly because it does not feel ETC is yet ready for competition, and partly because it wants to retain control over the system which is of significant strategic and political importance.

Fertilizer: Fertilizer pricing has been liberalized, but distribution has still largely taken place through quasi-government channels; with international procurement being managed by a government body, local distribution linked to agricultural extension agents, and credit supplied - or at least guaranteed - by the Regional governments. Donors have been pushing for steps in liberalization for many years – essentially arguing that the government should not be in the fertilizer business. The view of the government is that the private sector distribution network is not adequate to ensure supply, and will take time to evolve; that the foreign exchange implications of fertilizer imports are too important for the government not to be involved. There is also a long-established central planning mind-set, that sees use of fertilizer in terms of publicly-set targets; but this is grounded in a deeper sense that something as critical to the country's food supply and economic performance is too important for the government not to be involved in.

Local Government Expenditure and Reporting. Responsibility for delivery of basic education, health, and infrastructure services devolved to in 2002/03 to local-level *woreda* governments. Consistent with the principal of decentralization, this was accompanied by the transfer of funds as untied 'block grants' to woreda governments. This presented difficulties for donors in accounting for budget support funds (and influencing) the actual composition of public spending. There were also concerns related to the adequacy of block grants relative to the woredas needs, and the timeliness of reporting on how grants were spent. The federal government took the position that local governments must retain the flexibility to spend resources as they saw fit. The federal government also argued that reporting delays were a transitional problem, and that they would be fixed once public financial management reforms were fully operational.

Education Spending Priorities. The share of educations pending going to primary education has declined in recent years, partly because of a large push to expand university and technical-vocational training (TVET). Donors have typically taken the position that priority should be assigned to funding primary education, consistent with conventional wisdom in development circles in the recent past, as it most benefits the poor. The government takes the position that higher level education and training is also critically needed if Ethiopia is to have the skilled manpower and professionals needed to break out of its low-level poverty trap.

The Government's Optimization Problem

The government's objective, presumably, is to implement as much of its agenda as possible. This means maximizing the inflow of resources (so it can finance as much as possible), while giving up as little sovereignty (in terms of control over the policy agenda) as possible. Understanding this is important to conditioning how we approach the question of ownership, and of management of the donor relationship by government.

The ruling elite in Ethiopia is not –in our view - motivated by financial gain or personal returns, as much as by a desire to implement a given vision of development for Ethiopia, and to achieve political goals. As such the role of aid is more subtle than in other countries, and the motivation behind aid management are not related to capturing surpluses, but rather to the combination of maximizing implementation capacity (in the form of donor financing) in conjunction with maintaining control of the policy agenda. This – combined with the natural tendency towards being closed, and reluctance to have outsiders too closely involved in domestic matters - means that the extent of aid and the views of donors in influencing domestic policy and political behaviour is limited.

In thinking about how the government manages aid, there are a number of complicating factors. One is the role of off-budget assistance. As noted earlier, Ethiopia – like many developing countries – receives much external assistance that is outside the framework of the formal government-donor aid apparatus. This consists of three types: (i) bilateral aid from traditional donors that does not go through the budget (i.e. that supports entirely donor-designed projects, technical assistance, or similar activities); (ii) new sources of off-budget aid (eg. from the Global Fund, PEPFAR, NGOs) these are significant, and growing[11]; (iii) aid from non-traditional donors (China), in-kind aid (for example contraceptive supplies and drugs from the UN agencies or bilaterals), direct payments, export credits, and quasi-commercial assistance to public enterprises (for example the aid financing provided to telecommunication or electricity utilities for network expansion).

In 'managing' aid, government is trying to balance all of these resources in their totality; to maximize the combination of control over the agenda, and the inflow of resources; the implication being that we are seeing only part of the picture (and perhaps mis-diagnosing the process) if we focus only on the agenda as negotiated under the policy-based part of the aid package; and if we focus only on the formal aid management structures and mechanisms; a point explored later in the discussion of aid mechanisms.

The following section discusses the formal channels for aid co-ordination and management, but in reality there are both parallel forces at work, associated with the negotiation with providers of off-budget donor financing (some of which may allow the government more, or less, latitude in determining the content of the policy agenda); as well as parallel *mechanisms* (such as those involving the executive branch, or within the Party) that may be as important as the formal aid coordination mechanisms.

In general government has a clear preference for untied budget support, both because it maximizes its flexibility in deciding what to finance, and lessens the administrative burden of aid accounting. However as noted earlier (and discussed in depth later) this process is currently in a state of hiatus. The government has also been making an effort to bring more aid on budget, but there are somewhat contradictory incentives at work here, at the same time it is bringing in additional typically off-budget donors (such as China, or the Global Fund), which allows greater financing of programs, with less pressure on the broader governance or liberalization agendas.

Ethiopia's Aid Management Framework

Ethiopia's Ministry of Finance and Economic Development (MOFED) retains the exclusive mandate to negotiate bilateral and multilateral assistance programmes on behalf of the Government. It therefore plays a central role in coordinating the framework for aid management and dialogue in Ethiopia. The Development Assistance Group (DAG) --- which includes virtually all donor agencies active in Ethiopia and is coordinated by a rotating set of DAG members --- serves as the main coordinating body for the various working groups that comprise the aid management framework (see Box 3 below). The framework, and the multiplicity of groups therein, reflects global evolutions in development thinking and, in particular, the advent of General Budget Support and Performance-Based Approaches. GBS and PBAs generated increased demand for additional joint donor-Government fora. In principle, these groups are meant to facilitate policy discussions between donors and Government agencies. When necessary, they should also facilitate the resolution of disagreements.

Box 2 – Summary of Joint Donor-GoE Policy Fora

Forum	Composition	Mandate
High Level Forum	Heads of donor agencies, Ethiopian Prime Minister, Ethiopian Minister of Finance, other key federal Ministers and State Ministers.	Meets semi-annually to discuss high-level development policy and coordination issues.
Public Financial Management Committee	Technical staff from MoFED, technical staff from donor agencies. Chaired jointly by selected donor agency representative and Head, Macroeconomic Policy and Management Department within MoFED.	Meets quarterly to discuss broad public financial management issues, as well as ensure adequate ongoing attention to Joint Budget and Aid Reviews, annual Fiduciary Assessments and the general macroeconomic situation.
Joint Budget Support Missions	All DBS donors, technical staff from MoFED led by Senior MoFED State Minister; other State Ministers involved as necessary.	Held semi-annually to discuss: overall allocation and sectoral expenditure patterns, results achieved to date with DBS resources, quality of aid in the budget (alignment with national budget cycle etc.) and pfm issues.
Public Sector Capacity Building Joint Working Group	All PSCAP donors, technical staff from MoFED and MCB.	Supposed to meet regularly to discuss PSCAP implementation to date, challenges and next steps. Supported by semi-annual Joint Supervision Missions which undertake more in-depth thematic and regional reviews.
Protection of Basic Services Joint Review and Implementation Support Missions (PBS - JRISM)	All DBS donors, technical staff from MoFED led by Senior MoFED State Minister; other Ministries involved as necessary.	Quarterly review missions, each focusing on a specific theme/sector.
Health Sector Development Program	All donors supporting the health sector, technical staff from the Ministry of Health; chaired by the Minister of Health.	To discuss health policy issues, implementation challenges and review progress.
Education Sector Development Program	All donors supporting the education sector, technical staff from the Ministry of Education; chaired by the Minister of Education.	To discuss education policy issues, implementation challenges and review progress.

The multiplicity of groups included in the framework is a notable feature of the formal aid management structure in Ethiopia. To some degree, this has placed additional stress on the Government's existing capacity constraints. The GoE's severe capacity constraints often pose a challenge to the effective functioning of the aid management system. Ethiopia's capacity constraints are, in part, a function of the severe limitations of the public education system, and the tendency of most better-educated individuals to seek opportunities outside of the public sector.[12] While Government officials tend to be competent in their respective fields, very few officials are available to manage the process and the multiple demands placed upon them. As in many developing countries, there are only a handful of strong senior people in most government ministries, and few people below them are of sufficient seniority to interact directly with donors. Low salaries and a heavy workload make it increasingly difficult to attract and retain people with the necessary skills; the problem is compounded by a governing system in which all decision-making is concentrated at very high levels, but where sub-national administrations are being asked to assume greater responsibilities and without the necessary technical and human resource capacity.[13] The fact that the aid management framework has, at times, exacerbated the GoE's capacity constraints is quite an irony when one considers that part of the rationale for budget support and donor coordination was to reduce the transaction costs on both donor agencies and recipient government officials.

Donors have offered additional technical assistance to help the Government engage in these various fora and build the reporting and technical capacity to meet the data and analytical needs of various groups. The provision of such technical assistance is a common feature in several developing countries where severe capacity constraints affect various levels of the public administration (see Whitfield 2005). While donors have offered technical assistance on several occasions, the Government of Ethiopia has proceeded very cautiously in availing itself of donor-funded technical assistance. This has resulted in some frustration within the donor community, leaving the impression that Ethiopian authorities were actively seeking to limit donor insight into the policy-making process. Government officials argued that such assistance embedded in GoE structures distorts incentives and work allocation within the public sector. Interestingly, GoE practices may conform to emerging lessons from international research advocating the more cautious and selective use of donor-funded technical assistance (see ActionAid 2006).

The multiplicity of thematic groups can, at times, lead to the fragmentation of policy dialogue. In principle, the Joint Budget Support Missions and JBARs noted in Box 3 should include significant input from important line ministries, such as the Ministries of Health or Education. In the course of these discussions, the systematic inclusion of these Federal ministries and their corresponding Regional bureaus has met with resistance from federal government authorities, making it difficult to have a comprehensive dialogue on pro-poor spending patterns. Rather than being able to raise issues and concerns with line Ministry officials directly during the course of a JBAR discussion, questions raised by donors which the Ministry of Finance could not answer were taken forward by MoFED officials to other relevant agencies. This often resulted in lost time and inconclusive discussions. Simultaneously, donors would discuss important sectoral issues directly with line ministries through separate dialogue structures (e.g., the Health Sector Development Program), but these discussions would take place outside of the dialogue structures related to the principal ODA financing instrument (i.e., GBS). As noted earlier, MOFED retains central control over policy dialogue, but the tensions between centralization and decentralization challenge MOFED's ability to retain complete control over policy dialogue.

An important area where fragmentation remains is in the area of macroeconomic policy and growth. In spite of attempts to create a structure for dialogue on the macroeconomic and growth agenda, bilateral donors only receive updates on the macroeconomic situation, but often did not have an opportunity to have a regular and comprehensive discussion. This was in spite of the importance of macroeconomic stability to --- and the significant macroeconomic implications of --- general budget support. When providing GBS, donors attempted to compensate for the absence of the IMF by enhancing their own engagement on macroeconomic issues. The withdrawal of GBS, and the mounting of the PBS project, have provided donors with a renewed opportunity to address this concern.[14]

Another notable feature of the aid management framework is the Government of Ethiopia's preference to clearly delineate which donors participate in selected policy level discussions, and which do not. During the Joint Budget Support Missions and Aid Reviews noted in Box 3 above, the Ethiopian authorities have been firm in their insistence that only those agencies providing GBS should participate in these discussions, centering on the national budget, budgetary allocations and expenditure trends. (The same was true in negotiating the Protection of Basic Services instrument.) Consequently, those donors not providing GBS, but with significant involvement and technical expertise in key sectors (e.g., USAID in health and the Netherlands in education), were excluded from higher-level policy discussions. The burden fell to GBS donors to coordinate separately with these other agencies to ensure that their concerns were included in the discussions. As a result, some key bilateral agencies began to investigate the possibility of providing GBS.

Managing Policy Disagreements

While the limited influence on policy may be a function of donors' reluctance to move decisively from project assistance to policy-based programs, it is also in part due to the limitations of these joint fora themselves. To understand these limitations, one must examine the nature of governance, administration and policy decision-making in Ethiopia as well as an examination of how the Government of Ethiopia manages its dialogue(s) with the international community.

The formal aid management structure has an uneven affect on development policy. It has not, for example, resulted in significant dialogue on some key questions, such as liberalization in the telecommunications, banking and fertilizer sectors. The High Level Forum (HLF), for example, does not serve as a forum for actual negotiation. This is not surprising when one considers the number of actors involved and their multiplicity of interests. The HLF does play an important role in setting the broad parameters of donor-Government discussions; parties then take the signals they receive through HLF discussion for consideration within their respective bureaucracies. Of greater significance are the sector-specific groups (e.g., on health and education) that discuss and negotiate specific policy questions but, as noted earlier, have generally remained separate from discussions on levels of development finance.

At the next level of specificity, issues of broad sector strategy and program design get addressed in varying degrees by the sector working groups of the DAG. Some – such as those in health and education - are very active, and provide a platform for open interchange between donors and government, partly because they've been in existence for a long time and are structured around well-established sector programs. How effective are they at resolving policy differences? Moderately. The ESDP group, for example, provides a basis for detailed discussion on sub-sector policies in general (primary and secondary) education, and on what gets financed in general education under the ESDP. Agreement is probably easier because there has historically been convergence between government and donors on what is needed in the sector. On the thornier issues, such as the relative balance between spending on primary and university education, or the effectiveness of the TVET program, the sector group does not serve to solve the disagreements – in part because the donors are for the most part not financing the contested parts of the agenda, and in part because the decisions are being made at a higher political level. The working groups do however help keep channels of communication open between the donors and the line Ministries on thse sorts of issues.

The trickier issues, those that are most ideologically-charged, most political, and where there are the greatest differences – such as fertilizer, telecommunications, or financial sector reform – do not in general get addressed through the formal aid management framework described above. This is in part because the number of players is very small, often consisting only of the World Bank, and perhaps the IMF and/or one of the bilateral donors[15] , and in part because due to the sensitivity of the dialogue neither side wants to address the issues in public fora. The dialogue thus tends to take place in more informal one-on-one discussions between the donors (typically the Bank) and the Government. In terms of the examples cited earlier: the fertilizer issue was addressed repeatedly by the Bank in a sequence of fertilizer financing credits during the 1990s, with limited impact; and subsequently both the fertilizer and telecommunications reform agenda were put on the table for the adjustment credits in the early 2000s. The response of the government was largely to stick to its policy positions, and postpone any reform commitments. In this they were largely successful, partly because there were other, easier, issues on the reform agenda. The net effect has been a slow, incremental process of reform, with the donors exercising some influence over time on the direction of thinking of the government, and the government being able to very much control the pace, and degree of reform.

The PBS group, which is responsible for coordinating the quarterly progress reviews, has helped to resolve some key disagreements. Summarized in Box 4 below, the PBS project was conceived as a response to the November 2005 decision by donors to withdraw GBS resources in response to the political violence following the country's third national elections in May. In designing the PBS project, donors were able to address some key questions/disagreements noted earlier in the area of local government expenditure and reporting (Box 2). These issues included: ensuring that sub-national governments had sufficient funds to fulfill their mandate to deliver pro-poor basic services; timely reporting and audits as to how resources were used; and strengthening the involvement of domestic civil society in policy discussions and debates.

Box 4. The Protection of Basic Services Project

Component 1. This component provides resources through the GoE's existing financial management systems (i.e., through the federal-regional block grant transfer) in order to preserve the delivery of health, education, agricultural and water services at the levels budgeted for prior to the withdrawal of GBS.

Component 2. The purpose of this component is to make resources available to procure much-needed basic 'health commodities' (e.g., contraceptives, vaccines and anti-malaria bed-nets) for distribution throughout the country. Procurement will be handled using a series of international procurement agents and/or UN agencies with the required expertise and procurement capacity (e.g., UNICEF).

Component 3. This component is the first of two components meant to enhance transparency and public accountability in the use of public funds and the delivery of basic services. Its purpose is to provide funds and technical assistance to key public sector institutions responsible for budget transparency (e.g., regional bureaus of finance, offices of auditors general, etc.) so that information reaches citizens in a timely way.

Component 4. While Component 3 is meant to work with government institutions (i.e., to enhance the 'supply' of information), Component 4 supports NGOs so that they can analyse the data provided and help to hold governments accountable. The allocation of these funds will be managed by an internationally-recruited independent Management Agency.

The PBS project, and the joint donor-Government group responsible for its management, provides a mechanism with which donors and the GoE can have less compartmentalized discussions on important policy issues. Expenditure and policy issues in the four basic services noted earlier can be brought together (supported by relevant line Ministry officials) in a single discussion. The quarterly dialogue framework also provides an opportunity to include regional officials in policy discussions.

The PBS project also offers a way for donors to obtain a more comprehensive dialogue on macroeconomic issues. Each quarterly review is meant to include a discussion of macroeconomic and growth concerns. At the October 2006 review, Ethiopian authorities agreed that the IMF could undertake two Article IV surveillance missions each year. The first mission was scheduled for February 2007.[16]

The PBS project also integrates governance considerations into a single framework of donor support. The implicit focus of Component 3 is to support greater transparency in public financial management. NGO support, arranged through Component 4, is complementary to the overall objective of ensuring better service delivery and more transparency and accountability. Several donors had programs and projects pertaining to these themes prior to the PBS project, but these were dealt with separately and the links between governance considerations and the use of DBS resources were not always dealt with in a coherent way.

The October 2006 quarterly review showed that the Government had met all six of the conditions (termed "Dated Covenants") set for the second quarterly review. Specifically, these were: evidence that continuous audits are underway with respect to how PBS resources are being used; that a Public Expenditure and Financial Accountability assessment has commenced; evidence of continued public dissemination of government budgets and JBAR information; and evidence that the Government would be hiring, no later than October 31, 2006, at least fifty additional accountants with acceptable terms of reference. In addition, Ethiopia also met (and in some cases exceeded) the conditions related to the three tests noted above that were attached to donor disbursements.[17]

Leading up to the October quarterly review, a key item of disagreement was the extent of the Government's role in selecting the Ethiopian Civil Society Organizations that would participate in the selection committee for proposals to be funded under Component 4. While donors advocated that Ethiopian CSOs should elect their representatives to the committee without interference from the Government (with the Government indicating its acquiescence on a no-objection basis only), Ethiopian authorities were reluctant to remain passive. Eventually, after much discussion with PBS donors and recognizing this point was not negotiable, Ethiopian authorities conceded.

Through the aid management framework, donors and government were also able to discuss and negotiate differences following the May 2005 election. While a small group of Ambassadors and Heads of Aid was formed to deliver focused messages to the highest levels of the Ethiopian administration, a Governance Technical Working Group was also formed to develop a multi-donor technical assistance programme focused on some key governing institutions, such as the HPR and Regional Councils. This provided a mechanism for donors and the GoE to forge a politically agreeable way forward while simultaneously developing a coordinated programme of assistance meant to reinforce the political dialogue.

IV. Conclusions

In trying to understand how Ethiopia manages its aid dependency, care must be taken to discern conscious strategy from unintended structural factors and capacity constraints that may result in limited donor influence.

The real channels of decision-making and of aid coordination in Ethiopia differ from the apparent ones. Often donors in Ethiopia only have a limited understanding as to how policy decisions are made. The extent to which the Government seems unwilling to accept input from the donor community --- due, in part, to unpredictable donor support in the past ---sets Ethiopia apart from other low-income countries where donors have more easily embedded themselves in government structures, thereby potentially facilitating a more ready exchange of information and policy ideas. At the same time Ethiopia has retained a degree of control and ownership over its policy agenda that is greater than elsewhere, and has a relatively strong track record of implementation once policies are agreed. While it is certainly not unusual for recipient governments to take key policy decisions in fora where donors are absent, in Ethiopia the relatively tight control over the national policy agenda maintained by a small sub-set of key actors within a ruling party makes it an intriguing case to those trying to understand how aid dependency is managed.

The analysis presented in this paper suggests that the Government limits donor influence over the policy agenda (intentionally as well as unintentionally) by simultaneously pursuing a programme of decentralized implementation, while centralizing discussions with donors largely at the Federal level. The Government also balances a mix of traditional and non-traditional sources of financing in order to maximize aid inflows while retaining control of the policy agenda. This is reinforced by a system that retains significant power and decision-making authority at the center, and through the ruling party, quite separate from the nominal channels of donor communication, and by the concentration of donor dialogue and negotiations almost exclusively with federal level institutions, in particular with the Ministry of Finance and Economic Development.

Another approach used by government is to try to separate certain development partners from key decisions. As noted above, Ethiopian authorities have been vigilant in stipulating which agencies could, and could not, participate in the dialogue fora around DBS and, more recently, PBS. While this is in some ways understandable, the process has at times excluded key partners who have significant technical expertise (e.g., the IMF) on relevant issues and/or are contributing large amounts of assistance in relevant sectors, albeit in the form of projects (e.g., USAID).

The increasingly decentralized nature of Ethiopia's government system has presented a significant challenge and played a role in diluting donor influence. Ethiopia's resistance to the provision of foreign-funded technical assistance may constitute another part of the Government's strategy for limiting donor influence, though it is difficult to completely dismiss the government's concerns regarding the potential negative incentive effects and disruption of work allocation associated with foreign technical assistants placed in government Ministries.[18]

Changes in the level of donor assistance to Ethiopia have been driven overwhelmingly by political and geopolitical considerations --- the revolutions of 1974 and 1992, Ethiopia's alignment during the Cold War, the war with Eritrea and the events following the national elections of May 2005. These factors, rather than anything the government has consciously done to manage the aid agenda, have largely determined the level of aid inflows. In the current context, Ethiopia is also conscious of its geo-political position. In spite of it having the second largest population in sub-Saharan Africa --- just over half of which is estimated to be muslim --- Ethiopia's government is secular and, thus far, there is little evidence of Islamic fundamentalism. Its position as a pillar of relative stability in an otherwise unstable part of the world, as well as its proximity to the Middle East, make it an important strategic ally for several western capitals. Its recent forays into Somalia, and its successful routing of the Union of Islamic Courts, may serve to reinforce its position in this regard.

Furthermore these political and geopolitical factors have also overwhelmed considerations of technical evidence and aid effectiveness, such as sound public financial management and a strong track record in pro-poor spending that are traditionally accepted amongst donors as being important in determining aid allocations. As a case history, Ethiopia's experience is an interesting illustration of the proposition that absolute need, good financial management and sound implementation performance alone do not necessarily generate higher aid levels, especially in an environment where communications between government and donors are problematic.

The case study highlights one of the main tensions confronting Ethiopia's donors. Donors, on occasion, find themselves uncomfortable with certain elements of the Government's policy agenda. Nonetheless, because of the country's size and level of need, most donors want to provide support. This gives the Government substantial bargaining power, which it exercises at times by refusing to compromise on its policy agenda, and at times by dividing the donor community. This involves a degree of gamesmanship (on both sides) with the potential for positions and strategies being misjudged in either direction. There are instances in which the Government may not realize the extent to which the donor community's interest in Ethiopia enhances its negotiating position; conversely, the Government also seems capable of over-estimating the strength of its position (as illustrated by the November 2005 donor decision to withdraw budget support).

In this context, the relationship between policy performance and levels of assistance that developing countries can hope to receive is not clear. The struggle has been, and continues to be, the development community's ability to design aid allocation systems and instruments that strike an appropriate balance between the various --- and often competing --- considerations of poverty levels, aid effectiveness, policy agreement, and political governance concerns, that should ideally drive ODA allocation decisions.[19] It remains to be seen if the PBS instrument will meet this challenge successfully.

The Ethiopia case also forces analysts and policymakers alike to re-visit the fundamental concept of country ownership. As this case study shows, it is not clear that donors have come to terms with the full implications of ownership, especially when it embodies policies they are uncomfortable with, or is expressed in terms that seem to reflect a lack of openness to outsiders' views. At the same time there is a tendency in government not to readily accept donor perspectives unless they are already deemed legitimate within the ruling party and the senior echelons of the bureaucracy. This makes it difficult for both sides to develop a stable, long-term dialogue on a broad range of important policy issues related to poverty reduction. Because the donor-government relationship is fragile, and characterized by a low level of trust, the ODA relationship tends to encounter numerous obstacles, resulting in donor uncertainty and contributing to aid volatility. Given the considerable complexity of Ethiopia's development challenges, and the difficulties facing donors and the Government in creating a robust long-term relationship, there are surprisingly few aid instruments available in Ethiopia. A broader set of instruments would allow donors and government to diversify their relationship, spread risk and perhaps reduce the long-term volatility/unpredictability of development assistance.

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Endnotes

[1] The views expressed in this paper are the authors' alone and do not reflect the positions of either CIDA or IDRC.

[2] Ethiopia was, for example, the recipient of the first World Bank assistance to Africa, in 1950.

[3] Source: MoFED – note estimates vary somewhat depending on the source used, and what is counted in the aid package, but all tell the same substantive story.

[4] Average 2000-2004, based on UNDP data, differs from data shown in table 1, which does not include in-kind off-budget relief assistance.

[5] There was tacit agreement during this time that bilaterals would generally fund only humanitarian assistance – to avoid the perception of indirectly funding military expenditure - while the World Bank would maintain basic development aid levels. The view of the Ethiopian government is that the aggression was instigated by Eritrea, and that it was unfairly penalized by the withdrawal of support.

[6] Ethiopia: Public Expendiure Review: The Emerging Challenge Report 29338-ET; World Bank (2004).

[7] Again with the caveat that substantial amounts of aid go un-recorded, although if these were added both the numerator (total aid) and the denominator (total recorded public spending plus unrecorded aid) would increase, so although the share would be greater, it would not be directly proportionately greater.

[8] Changes in revenue levels associated with political disruption and changes in aid levels explain the majority of variance in public spending in Ethiopia – external shocks and drought have historically had only a limited effect on public spending; see Box 8.3 in World Bank (2004).

[9] "Constitution of the Federal Democratic Republic of Ethiopia", see Articles 51(2), 51(3).

[10] For discussions of policy issues that reflect this tension, see Ayenew (2002), Tadesse and Young (2003) also provide interesting analysis.

[11] For example in a recent year the Global Fund alone was estimated to have provided $80 million, almost equivalent to the total recurrent budget of the Ministry of Health.

[12] For more, see World Bank (2001, 2005).

[13] David Watson, "Capacity Building for Decentralised Education Service Delivery in Ethiopia" (ECDPM Discussion Paper 57H), Maastricht: European Centre for Development Policy Management, 2005.

[14] For example, in advance of the World Bank Board discussion on the PBS project on May 25, 2006, donor agencies instructed their Executive Directors to urge the GoE to ensure a more robust and regular dialogue on macroeconomic issues and allow the inclusion of the IMF in the quarterly reviews of the new PBS instrument. Donors continue to make petitions in this regard.

[15] This is generally because most bilateral donors either do not want to, or are not equipped to, engage with the government on these sectors which are controversial, in which they are not directly engaged in financing, and which require specialized technical expertise.

[16] *Ethiopia Protection of Basic Services (PBS) Programme Joint Review and Implementation Support Mission. 20-27 October 2006. Aide Memoire*., unpublished document.

[17] Ibid.

[18] For a recent critical examination of donor-funded technical assistance, see ActionAid (2006).

[19] The overwhelming risk that political considerations can pose to a particular aid instrument raises questions regarding the possible appropriateness of the International Financing Facility (IFF), the creation of which continues to be advocated by the UK Treasury. Its technical/accounting challenges aside, the IFF could provide one way for donors to insulate at least part of their support to a particular country from political considerations so as to ensure predictability and not cause the same sort of fiscal and macroeconomic disruption that was experienced in Ethiopia. Should clear evidence emerge that funds are being misused, IFF disbursements can and should also be suspended, but this could be done only once incontrovertible evidence is available.

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