



EUROPEAN UNION '+'

JOINT COOPERATION STRATEGY

FOR ETHIOPIA

27 January 2013

EUROPEAN UNION '+' JOINT COOPERATION STRATEGY FOR ETHIOPIA

Outline

List of Abbreviations

I. Introduction

II. Context and Development Challenges

1. Governance and Political Developments
2. Regional Stability
3. Economic and Private Sector Development and Financing 'Landscape'
4. Human and Social Developments
5. Humanitarian Situation and Food Security
6. Gender
7. Environment and Climate Change
8. Aid Effectiveness
9. Other cross cutting issues

III. A Joint Strategy for Ethiopia

1. Objectives and Guiding Principles
2. EU+ Mutual Priorities

IV. The way forward: EU+ joint programming for aid effectiveness

Annexes:

Annex 1: Selected aid effectiveness priorities for EU joint programming

Annex 2: Programming Cycles

List of Abbreviations	
APR	Annual Periodic Review
CSO	Civil Society Organisation
CRGE	Climate Resilient Green Economy
DAG	Development Assistance Group
EDF	European Development Fund
EPA	Environment Protection Agency
EU	European Union
EU+	European Union, EU Member States and like-minded donors (Norway)
GEQIP	General Education Quality Improvement Package
GDP	Gross Domestic Product
GNI	Gross National Income
GTP	Growth and Transformation Plan
MDG	Millennium Development Goals
M&E	Monitoring and Evaluation
MTEF	Medium Term Expenditure Framework
OECD	Organisation for Economic Cooperation and Development
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PBS	Protection of Basic Services
PSCAP	Public Sector Capacity Building Programme
PSNP	Productive Safety Nets Programme
RED&FS	Rural Economic Development and Food Security
SLM	Sustainable Land Management
SWG	Sector Working Group
TWG	Technical Working Group

I. Introduction

The European Union (EU), its Member States, and like-minded donors (Norway), henceforth referred to as 'EU+', are firmly committed to supporting a stable and prosperous Ethiopia in a challenging region. EU+ is therefore committed to supporting the Government of Ethiopia to achieve in a realistic way, the main objectives of the Growth and Transformation Plan (GTP), as well as to improve the efficiency and relevance of EU+ development assistance. Building upon the longstanding relationship between the EU, its Member States, Norway and Ethiopia, the EU+ Joint Cooperation Strategy establishes a shared, long-term vision for EU+ partners in supporting Ethiopia's development.

Ten EU Member States, Norway and the European Union consider Ethiopia a priority country for their operations. Other EU Member States also provide development assistance.¹ In 2010, EU member states and Norway provided USD 1,095 million of ODA (disbursements @ current prices), equivalent to 28.7 percent of total ODA.² Shared priorities and improved coordination and effectiveness will increase the leverage of EU financing. New financing instruments and possible joint programmes will further facilitate this process.

The GTP, covering 2011 to 2015, presents an opportunity to renew the commitment of the EU, EU Member States and like-minded donors (Norway) to adopt a common vision of development challenges, to outline mutual priorities for supporting Ethiopia's development in alignment with the GTP and to establish guiding principles and objectives for effective development in the spirit of an equal-standing partnership.³ Whilst ambitious, the GTP offers a basis to build an EU+ response in the framework of the EU Agenda for Change⁴.

This Joint Cooperation Strategy lays the building blocks for EU+ joint programming in Ethiopia; it is a document that the EU+ partners will refer to in their country strategies. It is a document shared with, but not endorsed by, National Authorities. It seeks to ensure coherence with DAG initiatives, and encourages the participation of other development partners. The Joint Strategy has three parts: an overview of the context and the development challenges facing Ethiopia (Part I); followed by a statement of objectives, guiding principles and mutual priorities (Part II); and a strategic road map for improved cooperation and EU joint programming (Part III).

II. Context and Development Challenges

With an estimated population of 84.7 million in July 2011⁵, Ethiopia is the second-most populous country in sub-Saharan Africa. Ethiopia is also one of the world's poorest countries, with a per capita GNI of USD 400 (current USD) in 2011.⁶ It ranks 174 out of 187 countries in human development according to the 2011 Human Development report.⁷

The Government of Ethiopia has a strong track record of commitment to pro-poor development policies and this has helped the country make impressive progress towards the MDGs. In the last five years, with substantial support from the EU+ partners, Ethiopia has:

¹ Ethiopia is considered a priority country for Austria, Czech Republic, Germany, the European Union, Spain, Finland, Ireland, Italy, Netherlands, Sweden and the United Kingdom. France, Poland, Belgium, Denmark, Greece and Portugal also provide ODA.

²

From: <http://stats.oecd.org/Index.aspx>.

³ Agenda for Change in support of inclusive growth and sustainable development - Increasing the impact of EU development policy. EU Council, May 2012.

Busan, November 2011, 'from aid effectiveness to development effectiveness.'

⁴ Approved by the EU Council on 14 May 2012

⁵ <http://www.worldbank.org/en/country/ethiopia>

⁶ See World Bank <http://data.worldbank.org/country/ethiopia> (accessed 23 August 2012).

⁷ http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_ETH.html (accessed 31 August 2010).

- reduced the proportion of the population living below the national poverty line from 39% to 30 %
- put four million more children in primary school
- reduced child mortality by a quarter
- trained and deployed over 30,000 health extension workers
- supported a yearly average of 8 million people through a productive safety net programme

Starting from such a low base, the Ethiopian economy has registered impressive growth in recent years.

Faster and sustained growth and progress towards the MDGs - the basis of the GTP might be challenged by:

- Ethiopia's young and fast growing population, with an expected explosion in urban areas
- chronic food insecurity and increasing pressure on natural resources
- the impacts of climate change,
- regional instability and regional state imbalances (peripheral regions),
- the pace of democratisation and the challenging coexistence of religions.

Also, the economy is faced with the challenges of how to sustain high growth, curb inflation, improve resilience to shocks like drought or volatility of food and commodity prices, whilst further reducing macroeconomic risks and imbalances, and preserving low levels of corruption. The country, whilst establishing its own path for development, could benefit from better exposure to good practices, worldwide.

The following section outlines the main development challenges, according to GTP's pillars, to be completed in due course by regional stability issues, aid effectiveness, and additional cross cutting issues.

1. Governance and Political Developments

The Federal Democratic Republic of Ethiopia is based on a solid and modern constitution, marked by the concept of "revolutionary democracy", and with a strong emphasis on pro-poor development policies. The democratisation process is still young, and according to international standards marked by a lack of separation of powers and limited political space. Fundamental freedoms, such as freedom of association and expression, face increasing restrictions. The federal nature of the state, which devolves authority to regional states, district and village authorities, allows for regional diversity. Good progress has been made in fiscal and administrative decentralisation processes. However, pluralism and diversity remain constrained, partly due to the lack of independence of democratic institutions and the overlap between ruling party and State.⁸ Institutional capacity, especially in justice and democratic governance institutions, is weak. Risk of increasing religious tensions, exacerbated by restricting human rights, may become a major threat for internal stability.

Good governance is one of pillars of the GTP, and focuses upon capacity building, justice, democratic institutions, the media and ICT. Adequate acknowledgement of the role of civil society as important stakeholders in implementation of the GTP is missing with the relationship between the Government and civil society continuing to be characterised by a lack of trust. Civil society's role is largely seen as service provision, rather than as important players in the

⁸as evidenced in the 2010 EU EOM report. Since the establishment of the Federal Democratic Republic of Ethiopia four national elections have been held, all won by the coalition of the Ethiopian People's Revolutionary Democratic Front which has governed the country since 1991.

economic development and democratisation processes, the latter being key to ensuring the long term sustainability of the current enormous development efforts.

Ethiopia has a good track record on public financial management with relatively low levels of corruption. With economic development, however, opportunities for corruption are likely to increase.

2. Regional Stability

Ethiopia commands a significant demographic and geopolitical position in the Horn of Africa, one of the more conflict-prone regions in the world, and holds a pivotal role in maintaining the current power balance and stability in the region. The protracted border dispute between Eritrea and Ethiopia, the Somalia crisis and the Sudanese conflicts are having a negative impact on the livelihoods of millions of people in the region, in addition to recurrent cross border conflicts between pastoralist groups. Ethiopia is supporting the implementation of the Comprehensive Peace Agreement in Sudan, and is assisting international efforts to bring peace and stability in Somalia. Ethiopia also plays a key role in the Nile Basin Initiative and is willing to re-visit old agreements on the use of Nile water, touching the lives of one hundred million people in Africa. The Eritrea-Ethiopia Claims Settlement Commission released its final assessment on the border dispute in August 2009, and relations between the countries remain strained. Ethiopia, within its border, has about 400,000 refugees from throughout the region, some for decades. Long term solutions are yet to be found. The threat of terrorism, emanating both from domestic regional insurgencies and from armed groups dispatched from bordering countries, is a reality. It calls for robust and balanced handling, but should not be used as a pretext for stifling political dissent.

Economic links and complementarities with neighbouring countries could potentially yield significant results, and reduce the likelihood of conflicts. However, the GTP neglects the role of neighbouring countries, the potential offered by regional markets and the link with regional and pan-African initiatives such the Programme for Infrastructure Development in Africa (PIDA) and the action plan towards the creation of a Continental Free Trade Area building on the tripartite process (COMESA, EAC, SADC).

3. Economic and Private Sector Development, Financing 'Landscape'

Ethiopia has achieved impressive and rapid annual economic growth of 11 percent average over the past seven years⁹. The growth was largely driven by government-led development policies, public investments in infrastructure, and social sector programmes. Much of the growth was initially led by agriculture, but has become more broad-based, with rising contributions from the service and industrial sectors.

Ethiopia is largely a command economy. Under the GTP, which builds on progress made under the Plan for Accelerated Social Development and Economic Progress (PASDEP), government aims to further open the economy and achieve growth rates of 11.4% (base case) to 14.9% (high case) annually, to reach middle income status by 2025.¹⁰ Economic transformation, industrial sector expansion and private sector development will be key to achieving the ambitious growth targets. The Government has shown an increased appetite to dialogue with the private sector, for example through the Public Private dialogue forum, and the EU Business Forum to Ethiopia started in 2011. This dialogue needs to result in improved framework

⁹Even during the 2008 global financial crisis the economy continued to grow at 11.2% in 2007/08 and at 9.9% in 2008/09 showing remarkable resilience. See IMF Country Report No.10/175, June 2010 for further details. Although IMF staff estimates⁹ suggest that robust growth has been in the range 7-8 percent see <http://www.imf.org/external/pubs/ft/scr/2011/cr11303.pdf>.

¹⁰ World Bank Atlas: Up to US\$995 of per capita GNI: low income; US\$996- US\$3,945: lower middle income status.

conditions for private sector development. Within the context of WTO accession, desired by Ethiopia by the end of the GTP, this is likely to pave the way for a reform process.

The GTP aims at raising productivity in agriculture, and creating employment in the services, industry and export sectors. The industrial sector is expected to become the leading sector by 2015. Furthermore, the government aims to expand access to, and improve the quality of, social services, and to invest in infrastructure development, particularly roads, energy and railways. The quality of transport services remains a matter for concern. The GTP targets for infrastructure investments are ambitious, and the rationale for those investments not always clear, lacking cost-benefit analyses. Concerns over quality of construction and maintenance persist.

The Government intends to finance the GTP by encouraging an increase in domestic savings, through broadening the tax base and improving tax collection. This may represent a risk of crowding out the private sector. Private investments are to be encouraged through new credit facilities and improvements in the enabling environment. Foreign Direct Investment (FDI) remains abnormally low compared to countries like Kenya or Ghana. Development partners are expected to maintain their support, with additional aid and investments being sought from new partners such as China, India, Brazil and the Middle East.¹¹ ODA is called to decrease in relative terms. However the absence of a clear budget attached to the GTP, with a clear hierarchy of priorities, may exacerbate financing concerns and macroeconomic imbalances (particularly inflation) at a time of rather limited resources.

The ambitious targets raise a few potential risks such as overheating of the economy or environmental sustainability. The lack of a conducive policy framework for the development of the industrial sector and the government's role in the financial and utilities sectors continue to pose important challenges. While there are ample opportunities for private investors with a cheap labour force, a large internal market and land resources, the environment for the private sector and foreign investors remains challenging. High transaction costs, lack of predictability and lack of a level playing field are compounded by malfunctioning financial services. SME capacities and presence remain weak.

Addressing existing macro-economic imbalances as witnessed on the occasion of the first annual periodic review of the GTP early 2012 requires, inter alia, curbing inflation, limiting the budget deficit, keeping the balance of payments in equilibrium, ensuring the competitiveness of the currency, and positive real interest rates. This, in turn, requires reducing rigidities in the banking system, opening up free competition for savings and freeing credit to facilitate access by the private sector. Further, the resilience of the economy to external shocks needs to be strengthened.

Whilst recognising the legitimacy of ambitious national development plans, there is a risk in trying to achieve too much in too short a time period. There is a need to ensure that there is sufficient spare capacity in the economy to absorb the changes without creating further inflation or bottlenecks. Ethiopia is in no immediate danger of debt distress but domestic and external financing needs may expand quickly to keep pace with the projected growth by 2015¹².

4. Human and Social Developments

Ethiopia has been making impressive gains in the area of human and social development. It is on track by numbers to achieve many of the MDGs relating to extreme hunger and poverty,

¹¹Aid flows currently comprise approximately one-third of national development resources – or \$4bn in 2010 and the country still remains under-aided on a per capita basis (\$27 in 2009/10) in sub-Saharan Africa.

¹²Additional Government borrowing may be needed, beyond the amounts available as concessionary borrowing. This could force the Government to borrow extra from the markets at commercial rates, and so raise its vulnerability to eventual debt distress.

universal primary education, combating HIV/AIDS, malaria and other diseases. However, the quality of education and other social services should also be considered. According to the UN, Ethiopia achieved the world's fastest improvement in human development between 2005 and 2010. Ethiopians' life expectancy at birth increased by almost 5 years in the last decade. Over the past two decades, according to official figures, primary school enrolments have quadrupled, the number of people with access to clean water has more than doubled and the proportion of people living on less than \$1 a day decreased from 60% to 36%.

Yet, many challenges remain: an important number of people remain vulnerable and under the poverty line. 44% of children are stunted, due to lack of food or poor health, which is not only important in terms of individual suffering, but also in terms of their eventual contributions to sustainable development. The MDG addressing maternal mortality is the most off-track at present, with 676 women, for every 100,000 live births (2010)¹³, likely to die. Whilst almost equal numbers of boys and girls go to primary school, this ratio declines through secondary and tertiary levels, with female adult literacy rates less than half of those of men. Furthermore, HIV/AIDS remains an important development challenge. Water supply, sanitation and hygiene remain matters of concern, with serious discrepancies between official figures showing a 70% access to water and field surveys closer to 50%. The situation is expected to worsen in towns, along with the expected explosion of urban population in coming years. Access to basic services and economic opportunities in peripheral regional states remains very limited. Further, equity in access to services, particularly for marginalised groups and minorities, is an issue.

The Government of Ethiopia continues to prioritise pro-poor spending, with high levels of resources allocated to basic services. It remains the most poverty-focused government in Africa. Multiple programmes to deliver social services are now in place covering education, health, sanitation and water supply. The two large government programmes, Protection of Basic Services (PBS) and Productive Safety Net Programme (PSNP), cover over 50% of EU Member States' financing frameworks up to 2012. PBS has proven to be a successful instrument. Yet, it needs to be stronger integrated with sector reform dialogue and programs in the supported areas. It constitutes the major resource transfer into the country, accounting for one third of all donor aid in Ethiopia. About a third of PBS resources, subsidies or block grant transfers are allocated to the regions. PSNP protects the basic food security and livelihoods for over 7 million poor people; it has been instrumental in reducing the impact of the 2011 humanitarian crisis in Ethiopia. Support for access to services needs to be maintained, whilst emphasising quality of services in education, health and water, as foreseen in the GTP.

5. Humanitarian Situation and Food Security

Food insecurity and malnutrition remain major challenges in Ethiopia despite huge investments and significant agricultural potential. Humanitarian aid remains abnormally high after decades (25% of foreign support), and a transition from humanitarian to development aid is desired. In any one year more than 10 million people cannot meet their basic food needs from one end of the year to the next. The Productive Safety Net Programme (PSNP) despite its impressive results is not a sustainable response to address the issue.

Support programmes are fragmented and there is a poor link between food security, nutrition concerns and agricultural programmes. Agriculture accounts for about 40 percent of GDP, 90 percent of exports and about 85 percent of employment. The majority of Ethiopians still live in rural areas. Livestock also plays an important role and remains the source of livelihood for about 20 percent of the population. Coffee is the major income source, directly or indirectly, for 15 million Ethiopians, while representing 40% of export earnings, though suffering from a lack of strategic vision to adapt to the international market. Khat, a soft drug, is developing strongly, at the expense of traditional subsistence agriculture. The agriculture sector is characterised by structurally low productivity, and remains dominated by vulnerable, small-scale subsistence

¹³<http://search.worldbank.org/data?qterm=ethiopia%2C%20maternal%20mortality&language=EN>

farming and rain-fed agriculture. Ethiopia remains highly vulnerable to weather-induced shocks, aggravated by land degradation, population pressure and climate change. As a result, alternative livelihoods to farming need to be promoted for many people.

GTP targets for the agricultural sector are ambitious. The Government wants to achieve food security in 5 years. The GTP emphasises the role of smallholder farming, while at the same time promoting large-scale commercialisation, an appropriate approach provided that enablers and incentives, as well as consultation and mitigation measures for local populations, are in place. A Programme Investment Framework provides a strategic 10 year framework for prioritisation and planning of investments for agricultural growth and development. Challenges include encouraging private sector participation and creating incentives to increase production by smallholders (marketing, information systems, value chains for agribusinesses, land certificates) as well as improving inputs (seed quality, fertilisers), irrigation, including small-scale irrigation, and rural infrastructure. Similarly, livestock resource management should be improved, including addressing low productivity, animal health and quality control. The G8 initiative "new alliance on food security and nutrition" and the "Global alliance on drought resilience in the Horn", both launched in 2012, offer opportunities to address such challenges. At the same time, attention needs to be given to ensuring the protection of natural resources, including the rehabilitation of watersheds and reforestation.

6. Gender

There is a strong legal basis for gender parity, including legislation on access to land, credit and productive resources, yet implementation remains challenging.¹⁴ Gender disparities are widespread and visible in all spheres of life, particularly in rural areas: access to education, health, legal services and economic opportunities.¹⁵ While there has been progress for example in increasing girls' participation in primary education, deeply rooted traditions and practices continue to tolerate violence against women, child marriages, abduction for marriage purposes and female genital mutilation.¹⁶ The lack of women's economic empowerment has severe repercussions on their children, food production and economic growth. Although political participation has improved, wide disparities still remain. Research shows that the low perception of women of themselves, plus their low status in society, different harmful practices that discourage women's initiatives, low education levels and low access to training, contribute to their limited involvement in public life.

Recent changes to the penal code provide protection against discriminatory practices, while enforcement capacities remain low. Improving access to and quality of the legal and judicial system is important for the protection of women's rights and to counter the widespread impunity for violence against women. The Government, through the Ministry of Women's Affairs, Youth and Children, and its departments at all levels of administration, is strongly committed to addressing these issues. However, they have limited capacity, presenting an obstacle to scaling up gender programmes.

7. Environment and Climate Change

Ethiopia is a country of diverse natural resources and an important centre for biodiversity, due to its wide-ranging climate and topography. The majority of Ethiopians are engaged in agriculture and are heavily dependent on natural resources. Unsustainable use and

¹⁴ The Government has also ratified most international and regional human rights instruments. Declaration on Elimination of Violence Against Women, the Beijing Declaration and Platform for Action, UN Declaration on the Right to Development, UN Millennium Declaration, NEPAD Framework document, Right to Development in the African Human and People Rights (1981) including the protocol on the Right of Women in Africa, African Charter of Popular Participation in Development, Constitutive Act of the African Union (2000).

¹⁵ Gender Gap Index: 122 of 134 (Global Gender Gap Report 2009), Gender-related Development Index: 133 of 155, Gender Empowerment measure: 85th of 109 countries (Human Development Report).

¹⁶ The prevalence of female circumcision is estimated to be above 70 percent.

management of resources, industrialisation, urbanisation, population pressure, use of marginal land for smallholder agriculture, and massive use of fuel wood, have led to severe environmental degradation. The impacts of climate change are more severe in Ethiopia, as they are directly linked to food security. In some cases, key ecological systems are being threatened by new investments or by mismanagement of ecosystems. While there are provisions for environmental impact assessments, the GTP does not mention such studies on its proposed large-scale projects. Similarly, such assessments are often disregarded in the implementation of investment projects.¹⁷ The impact of increasing urbanisation, with poor waste management and sewage systems remain largely under-prioritised.

Ethiopia is at the forefront of the international climate change agenda. However, the design and implementation of national climate change policies has been delayed. Many agricultural programmes, particularly the on-going food security programme, and natural resource conversion measures, are not climate-change resilient. There are some overlapping responsibilities between agencies, and coordination of various programmes while improving remain weak. Enforcement of laws remains a challenge, partly due to the inadequate capacity of regulatory authorities. There is an emerging structure and platform for dialogue between the Government and donors. The GTP treats environmental issues linked to agriculture and rural development, and promotes environmental issues to be mainstreamed. The Climate Resilient Green Economy strategy (CRGE) adopted in December 2011 is addressing some GTP's gaps as for the mitigation agenda and setting clear priorities (renewable energies, livestock).

8. Aid Effectiveness

The Development Assistance Group (DAG) was established in 2001 to coordinate donor activities, enhance harmonisation of donor practices, facilitate coordinated donor dialogue, ensure information sharing, broaden engagement with regional state authorities and non-state actors and to support the implementation of national development programmes. The DAG currently has 24 members, 13 of which represent EU member states or the EC.¹⁸ Thematic Working Groups (TWGs) and Sector Working Groups (SWGs) have been established to support thematic and sector-level activities, some of which are also co-chaired by the Government.

Over the last few years the 'aid landscape' has gradually changed, with non-traditional bilateral donors such as China, India and the Gulf States increasingly engaged in Ethiopia. As a result, the overall share of EU financial flows to the country has gradually diminished, while EU aid flows remain relatively stable. Coordination with emerging donors is often demanding.

One of the key challenges continues to be a limited high quality policy dialogue on key development challenges and policies. In 2011, the Government signalled renewed interest, with the reactivation of the Aid Effectiveness Taskforce and the setting-up of an Aid Effectiveness Action Plan, largely aligned with the EU+ aid effectiveness agenda. For the Government, predictability, particularly multi-year predictability, alignment with national priorities, and the use of country systems, are key priorities. Priorities of development partners include sector policy dialogue, managing for results and strengthening mutual accountability. The emphasis on results and development effectiveness also reflects a current trend in the international aid debate.

The lack of timely and reliable data on aid flows has made tracking aid effectiveness-related issues difficult. In 2011, the Government started the roll-out of the Aid Management Platform

¹⁷Ethiopia issued proclamation (no. 299/2002) on Environmental Impact Assessment to minimise socio-economic and environmental side effects and/or impacts from large investment projects and to ensure sustainability of development efforts.

¹⁸ Austria, Belgium, Denmark, European Commission, Finland, France, Germany, Ireland, Italy, Netherlands, Spain, Sweden and United Kingdom. For more information see: <http://www.dagethiopia.org>

which will facilitate the monitoring of the Aid Effectiveness Action Plan, and replaces the mapping conducted by the EU for its members.

9. **Capacity constraints** are cross-cutting and affect the public sector, private sector and CSOs. Capacity (planning, budgeting, procurement, contracting and monitoring) is particularly limited at the sub-national level, where the majority of services are provided. This increases the risks associated with high levels of rapid disbursements at sub-national level. Further, there is a high turnover rate due to low salaries and limited incentive schemes to retain qualified civil servants. Educational opportunities and vocational training also need to better match the requirements of the market to facilitate the expansion of the economy and employment creation. **Population growth** has reduced, yet remains one of the highest in the world, compounding pressures on the environment and basic services. **Timeliness and quality of data** also remain challenges affecting all sectors, to avoid progressive disconnect between official figures and other data sources, threatening the appropriateness of the decision making process and the accuracy of a results-based monitoring system. M&E has been put at the heart of the agenda of the APR (GTP's review) held in March 2012.

III. A Joint Strategy for Ethiopia

The Joint Strategy is aligned with the GTP's timeframe (2011-2015). Member States in the process of preparing new country strategies are encouraged to adopt an interim timeframe, to allow for progressive 'synchronisation' and to seek out opportunities for joint programming.

1. Objectives and Guiding Principles

The main objectives of the joint strategy are:

- to articulate a common vision of development challenges and mutual priorities for EU+ support in support of the objectives of the GTP;
- to progressively align EU+ partners' country strategies with agreed mutual priorities, paving the way for an EU joint programming exercise;
- to enhance the quality of policy dialogue;
- to make EU financing more effective through a focus on alignment, harmonisation, managing for results (common results framework), predictability and mutual accountability.
- to enhance the leverage and visibility of EU support to Ethiopia.

These objectives will be accompanied by a commitment to specific actions and targets to be set up in a roadmap and operational framework.

Efforts of the EU+ to enhance aid effectiveness and the DoL process build on existing donor coordination mechanisms. EU+ partners endeavour to actively encourage other development partners to support the process through their engagement in the DAG. All activities will be closely coordinated with the DAG. EU+ partners will use their participation in DAG SWGs or TWGs to promote policy issues related to the mutual priorities outlined below and to ensure that cross-cutting concerns are considered in all pillars/sectors

EU+ activities are based on and guided by the core values of the EU, respect for fundamental freedoms, and democratic governance. EU+ partners support overall development as a catalyst for the empowerment of citizens.

While the Joint Strategy focuses on development, other policy tools and partnership features are growing in importance. The 'European Consensus for Development' and the 'Agenda for Change' highlight the importance of non-development policies in supporting developing

countries in their efforts to achieve the MDGs.¹⁹The EU's partnership with Ethiopia includes policy dialogue (including through Article 8), trade policy, environmental policy, migration and security policies. The partnership also offers many opportunities for knowledge sharing, particularly on Europe's experience of transformation in Eastern Europe and in candidate countries. The EU and Ethiopia also share important trade relations.

2. Mutual Development Priorities

EU+ partners are firmly committed to supporting the Government of Ethiopia to achieve, as much as possible, the main objectives of the GTP. Economic growth expected from the GTP will generate jobs and increase the demand for democratic accountability; deepened democratic governance will help deliver Ethiopia's development agenda. To support the ambitious growth targets, EU+ partners will look to increase their support to economic growth and productive activities, while keeping a focus on governance and social sectors.

2-1 Governance:

EU+ partners will continue to promote governance as a key for long term sustainable development through political dialogue at various levels. They emphasise the role of civil society as an equal and important partner in the development and democratisation processes of the country, and support the building of trust between civil society and the government. EU+ partners will continue to support civil society through existing joint instruments such as the Civil Society Support Programme, the Civil Society Fund and the Social Accountability component of the PBS. EU+ partners encourage citizen participation, both in the political and economic decision-making processes, as well as in social accountability, and they promote diversity of ideas, cultures and religions. Support towards enhancing domestic accountability systems involving both formal institutions as local councils and Supreme Audit institutions and informal actors as CSOs and media will be provided, EU+ partners will also facilitate exposure to good practices from countries with similarly young democracies and transition experiences.

EU+ partners will continue to support institutional capacity building. They are keen to support capacity building in the justice sector and for the democratic institutions, to allow them to fulfil their mandates better, as well as to support capacity building in the civil service. Further, EU+ partners will support a deepening of the rule of law and access to justice as well as the implementation of commitments made by the Government in the area of human rights. On the basis of EU joint activities such as the Human Rights Country Strategy, EU+ partners, in close coordination with the DAG, will explore new initiatives. They will encourage inter-religious dialogue and conflict prevention initiatives.

EU+' partners will support comprehensive PFM reform at all levels of administration. They will support the Government in preserving Ethiopia's low levels of corruption.

2-2 Regional Economic Integration for Regional Stability:

The EU+ will continue to support peace and stability in the region by promoting economic and political regional integration. This will include support to regional transport infrastructure development, energy markets, trade facilitation, as well as political dialogue. The EU will also support long term solutions for refugees, with a focus on peaceful coexistence with host communities, as well as for cross border conflicts and regional water management. The EU recognises and supports the strategic role of Ethiopia in regional institutions, such as the Intergovernmental Authority on Development, as well as in the African Union in promoting

¹⁹ The EU is committed to continue to enhance its Policy Coherence for Development and encourages all other partners to take a similar approach. For further details see Policy Coherence for Development Work Programme 2010-2013", Commission Staff Working Document, Brussels 21 April 2010, SEC (2010) 421 final.

regional integration, peace and stability in the Horn of Africa and in Africa, including for Sudan, Somalia and the Gulf of Aden.

2-3 Economic and Private Sector Development and Financing 'Landscape':

EU+ partners will look to increase their support for inclusive, sustainable economic growth activities in an environmentally and socially ethical, and appropriately regulated, manner. This will include: (i) supporting improvements to the enabling environment for the private sector, by addressing legal and administrative constraints, and by enhancing capacities; and (ii) expanding the involvement with and direct support to the private sector, through supporting new financial instruments, skills development, technical cooperation, exposure to international best practices and benchmarking. This could range from supporting private sector development-related activities for public bodies through the proposed Transformation Triggering Facility, and for private bodies through other programmes, to encourage knowledge sharing/twinning, capacity building, vocational and MBA education, and strengthening of public universities. The role of the private sector in the further development of sustainable agriculture will be emphasised, in line with the *New Alliance*.

EU partners endeavour to improve the overall quality of sector policy dialogue, to enhance trust and a constructive partnership with the Government and the business community through (i) the existing DAG structures, particularly on private sector and energy; (ii) Art. 8 economic dialogue; (iii) revitalisation of the macroeconomic/public finance management group; (iv) EU Business Forum and (v) relevant joint and bilateral programmes.

Private investments and foreign direct investment from the EU will be encouraged through emphasising the mutual benefit of such investments and the use of trade related instruments, e.g. 'Everything but Arms' initiative, export helpdesk, as well as trade and investment initiatives of member states. Ethiopia's WTO accession process will be encouraged. EU+ will support revenue mobilisation schemes and the set-up of a credible MTEF.

Furthermore, EU+ partners will continue to support infrastructure development, including rural roads, road safety measures, climate change adaptation and mitigation, renewable energies, urban and industrial planning. The protection of Ethiopian heritage and its promotion through tourism will be supported. The emphasis will be on capacity building and knowledge sharing, while support can be provided on capital investments where necessary. For that, a better sequencing of public investments is encouraged.

2-4 Human and Social Development:

EU+ partners are committed to continuing their support of the MDG agenda through a results-based approach, focusing more on utilisation and quality, and in increasing access to basic services, particularly for marginalised and minority groups. Special focus will be on maternal and child health services, including nutrition and family planning, education for girls and boys at all levels (primary, secondary, tertiary and vocational training) and improved urban and rural water and sanitation. Some partners are also increasing investments in the peripheral, under-served states where large disparities in development indicators exist, to promote inclusive development and stability.

EU+ partners will expand their support for joint programmes and social accountability.²⁰ Dialogue on policy, implementation and results will be further strengthened through engagement in sector working groups and in joint programmes. The dialogue at federal level on equitable access, quality of services, fiscal transparency and social accountability will be complemented by enhanced dialogue at sub-national levels. Further, EU+ partners will support the development and implementation of a national social protection policy, and also discuss

²⁰ For instance: Health MDG Fund, General Education Quality Improvement Programme, Water Supply, Sanitation and Hygiene and PBS.

means for more effective inclusion of vulnerable populations and areas in development activities.

2-5 Sustainable Agriculture and Food Security:

EU+ partners will continue their support for the humanitarian and safety net needs of the country, while supporting the transition from relief to development and resilience to drought and external shocks. Central in this effort will be support to the agricultural sector, including supporting extension services, input supplies and rural infrastructure. The EU+ is keen to support the role of the private sector through promoting an improved enabling environment. Alternative livelihoods will be supported through savings and credit schemes, business training opportunities and value chain development, as well as non-farm activities. The EU+ will pay particular attention to supporting a long term vision on pastoralists, to reduce their vulnerability, as well as to consolidating and modernising coffee production and marketing.

EU+ partners will continue to support Government-led programmes, balancing resources between protective and productive programmes, and provide support to the Ministry of Agriculture and the Agricultural Transformation Agency.²¹ Linkages between research and programme interventions will be strengthened by supporting research institutions and NGO initiatives for piloting innovative ideas - especially towards agricultural practices adapting to climate change for drought resilience -, for lesson learning and scaling up including towards those climate-smart agricultural practices. EU+ partners will also promote Disaster Risk Management to address the main threats of drought and flood. Nutrition concerns will be mainstreamed, including through links with agricultural productivity improvements.

2-6 Gender:

EU+ partners are committed to supporting women's economic and political empowerment as one of the Growth and Transformation Plan (GTP) pillars, not only because it is right, but also to generate an additional catalyst for economic growth and social well-being. This includes providing access to capacity building opportunities, to income generating schemes, business development and credit services. The capacity of the Ministry of Women Affairs, Youth and Children and other Government institutions will be strengthened to support the mainstreaming of gender concerns across governments sector policies, e.g. girls' secondary education, maternal health and sex-disaggregated monitoring. The EU+ is also keen to continue its support to the Government and women's organisations, to fight against harmful traditional practices and gender-based violence. Based on joint EU activities, such as the EU Gender Action Plan, EU+ partners also seek to design new initiatives.

2-7 Environment and Climate Change:

EU+ partners are committed to supporting the rehabilitation, preservation and proper use of natural resources and ecological integrity. This includes climate-smart actions like the expansion of renewable energy, focusing on hydro, wind, geothermal and solar energy, watershed management, livestock management, land use planning, including protected areas, and the preservation of forests through, for instance, participatory forest management. EU+ partners will also support balanced urban development.

They also support the Climate Resilient Green Economy strategy. EU+ partners will also ensure climate proofing of their development activities and support climate change resilient agricultural development. They will continue to support the role of non-state actors in environment and climate change activities. In this context special focus should be put on drought resilience. They will support mechanisms enabling EPA to coordinate and implement self-financing initiatives like impact assessments and mitigation measures.

²¹Programmes such as PSNP, Household Asset Building Programme, Agricultural Growth Programme, Sustainable Land Management Programme.

2-8 Mutual priorities that cut across all sectors and pillars:

- **Support for capacity building** at all levels of administration, to improve the provision and quality of public service delivery. This may include continuing support to the Public Sector Capacity Building Programme (PSCAP) and other joint programmes, including for sustainable agriculture and food security. For cross-cutting issues such as gender, environment and climate change, capacity will be strengthened to ensure that these issues are adequately mainstreamed. EU+ partners are also strongly committed to supporting capacity building for CSOs and the private sector.
- **Support for quality data and improved monitoring and evaluation.** This includes supporting the Government's capacity in monitoring GTP implementation.

IV. The way forward: EU+ joint programming for Aid Effectiveness

EU+ joint programming further activities will be based on a roadmap and annual action plans to be developed and endorsed separately.

The EU+ partners will activate progressively a joint programming strategy by 2015. Such joint programming will ensure a coherent and cohesive EU+ response, to improve alignment, harmonisation, results based approach, predictability and transparency, whilst avoiding overlapping or unduly fragmented interventions through a locally defined division of labour process. It aims to inform the overall DAG Government aid effectiveness agenda with which coordination, consistency and complementarity will be sought.

Subsidiarity will apply in development issues, as well as in other areas of EU+ collaboration. Where there are joint activities, such as analysis, research, monitoring, evaluation and pooling of resources, they will be undertaken on the principle that joint efforts contribute added value, reduced transaction costs and improved development effectiveness.

To further develop the EU joint programming process the EU+ partners have agreed to focus on selected aid effectiveness priorities as indicated in annex 1, and articulated around alignment between EU+ partners, developing a common result framework and improving EU+ transparency and visibility.

Done in Addis Ababa, on 27 January 2013

List of signatories

Norway

HE Mr Odde-Inge Kvalheim
Ambassador of the Kingdom of Norway

Belgium

HE Mr. Mr. Hugues Chantry
Ambassador of the Kingdom of Belgium

Bulgaria

HE Mr. Svetlozar Panov
Ambassador of the Republic of Bulgaria

Czech Republic

HE Mr. Marek Libricky
Ambassador of the Czech Republic

Denmark

HE Mr. Stephan Schonemann
Ambassador of the Kingdom of Denmark

Germany

HE Mrs. Lieselore Cyrus
Ambassador of the Federal Republic of Germany

Ireland

HE Mr. Aidan O'Hara
Ambassador of Ireland

Greece

HE Mr. Nicolas Protonotarios
Ambassador of the Hellenic Republic

Spain

HE Mr. Miguel Fernández-Palacios
Ambassador of the Kingdom of Spain

France

HE Mrs. Brigitte Collet
Ambassador of the Republic of France

Italy

HE Mr. Renzo Rosso
Ambassador of the Republic of Italy

Luxembourg

Mr Jean Marc Hoscheit
Ambassador. of the Grand-Duché of Luxembourg

Netherlands

HE Mr. Hans Blankenberg
Ambassador of the Kingdom of the Netherlands

Austria

HE Mrs. Gudrun Graf
Ambassador of the Republic of Austria

Poland

HE Mr. Jacek Jankowski
Ambassador of the Republic of Poland

Portugal

HE Mr. António Luís Cotrim

Ambassador of Portugal

Romania

HE Amb. Gabriel Branzaru
Chargé d'Affaires e.p of Romania

Slovakia

Mrs. Iveta Michalikoba
Chargé d'Affaires a.i. of the Slovak Republic

Finland

HE Mr. Leo Olasvirta
Ambassador of the Republic of Finland

Sweden

HE Mr. Jens Odlander
Ambassador of Sweden

United Kingdom

HE Mr. Greg Dorey
Ambassador of Her Britannic Majesty

European Union

HE Mr Xavier Marchal
Ambassador Head of Delegation of the European Union

ANNEX 1

Selected aid effectiveness priorities for EU+ joint programming

Selected aid effectiveness priorities are articulated around the five following components:

1. Alignment

- a. Alignment of EU+ Joint Cooperation Strategy with GTP (the Growth and Transformation Plan of the GoE) and with the GTP cycle (2011-2015) as well as with the Climate Resilient Green Economy (CRGE). EU+ partners endeavor to progressively aligning their programming cycles with the GTP.
- b. Alignment between EU+ partners: future bilateral country strategies will be aligned to mutual priorities outlined in the EU+ Joint Cooperation Strategy.

2. Use of Country Systems:

- a. EU+ partners intend to increase
 - i. The use of country procurement and public financial management systems and procedures as well as other relevant systems to the maximum extent appropriate.
 - ii. The share of funding channeled through joint programmes, pool funds and sector budget support mechanisms where appropriate.^{22,23}
- b. EU+ partners will develop joint programmes, open to like-minded partners, wherever possible and advisable.

3. Managing for Results

- a. EU+ partners, in line with Busan Partnership Agreement, will build a Common Results Framework, based on the Government's results framework, agreeing broad, expected outcomes/results, targets/indicators, milestones and planned actions. This will improve EU+ coordination and development narratives, as well as simplifying reporting obligations from the Government's side.
- b. EU+ partners will develop common, results-based approaches and support the alignment of EU+ sector monitoring and evaluation activities.
- c. EU+ partners will develop and agree reporting frameworks, and will share portfolio reviews and publish impact assessments.

4. Predictability and Mutual Accountability

- a. EU+ partners will provide timely, transparent and comprehensive information on aid flows at country and sector level, to the government's Aid Management Platform (AMP).

²² This commitment is also part of the DAG Aid Effectiveness Action Plan.

²³ This commitment is also part of the DAG Aid Effectiveness Action Plan.

- This will include reliable annual disbursement schedules and indicative commitments over a 3-year framework.
- b. Information on proposed, planned and allocated EU+ financial allocations per sector/sub-sector will be shared between donors and with the Government, to foster reduced fragmentation and create improved complementarity (matrix of indicative financial allocations).
 - c. Concerted efforts will be made to increase transparency and accountability, through regularly published joint EU+ publications on the quality and development effectiveness of EU+ assistance (EU+ blue book). EU+ partners will use AMP data for such aggregate annual reporting. It will highlight the degree of value for money via relating costs to planned and actual results.
 - d. Joint risk assessments will be conducted by EU+ partners, preferably with other DAG partners, and will be reviewed on regular bases, to ensure that allocations take account of local dynamics, and are adjusted to take account of changes, where necessary. This will also involve regular assessment of local absorption and implementation capacities for the intervention sectors, to ensure that the assistance does not itself contribute to bottlenecks or sectoral inflation.

5. Division of Labour

The 'Division of Labour' milestones are:

- Mapping EU+ sector presence
- Improving the effectiveness and quality of policy dialogue
- Decreasing transaction costs
- Concentrating bilateral cooperation resources on fewer sectors
- Developing harmonised approaches
- Coordinating with Government and wider development community
- Developing joint diagnostic tools

A mapping of EU+ sector presence, by both sector and modality, will be updated regularly. Many EU+ donors in Ethiopia have started to rationalise the sectors in which they are active, in consultation with all partners, with the objective of supporting a maximum of three focal sectors per partner. There will be continued mapping and development of joint diagnostic tools, to improve the cost effectiveness of providing sound analyses and research. Joint programming will not create mechanisms which are parallel to existing mechanisms.

annex 2: PROGRAMMING CYCLES												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Notes
GTP												
AT												alignment with GTP
CZ												
DE												
EU												2014-2020 with a possibility to align with GTP, with two phases 2014-16 and 2017-20
ES												
FI												
FR												following cycle in line with EU programming cycle
IE												next cycle to be confirmed likely 2014-18
IT												
NL												supported by annual sub-cycles
PL												annual financial programming
SE												
UK				1 April 2011-31 March 2015								
NO												