

# *Harmonization: Supporting the Poverty Reduction Effort*

Prepared for the:

High-Level Forum on Harmonization

February 24-25, 2003

Rome, Italy

# Content of Presentation

- Country Context
- Current aid delivery systems
- Changes needed to improve aid delivery
- Next Steps
- Concluding Remarks

# 1. *Country Context*

- Ethiopian population is currently estimated at about 65 million.
- Per capita income is about US \$116 per annum.
- 31.2 percent of Ethiopians live below the poverty line of US \$1 a day.

## Country Context (2)

- Currently, more than 40 bilateral and multilateral donors are supporting the country
- In spite of this, per capita ODA flow to the country is very low
- The average per capita ODA flow to Ethiopia since 1997 was just US \$13
- This figure amounts to about one half of the African average

## Country Context (3)

- Ethiopia is currently implementing a comprehensive poverty reduction program (SDPRP)
- The SDPRP has obtained the support and endorsement of Ethiopia's development partners
- A successful implementation of the SDPRP however requires, among others, increased ODA per capita

## *2. Current aid delivery systems*

- Most donors prefer to build separate frameworks for identifying areas of intervention in the country (e.g. PRGF, CAS, CSP, CAP, etc.)
- As a result, disbursement flows are not aligned with the government's planning and review cycles
- Donors request to conduct policy dialogue with government at different points in the government's planning and review cycles

## Current aid delivery systems (2)

- Most multilateral and bilateral assistance to Ethiopia is channeled through projects and sector programs
- Still, the current practice of project and program approach should be improved to enhance the gains from external development assistance

## Current aid delivery systems (3)

- Two major areas of concern regarding existing aid delivery arrangements are:
  1. Current project based assistances use separate and parallel systems for financial management, procurement, reporting, etc thereby reducing country ownership
  2. The need by project implementers to use the various systems prescribed by donors delays project implementation

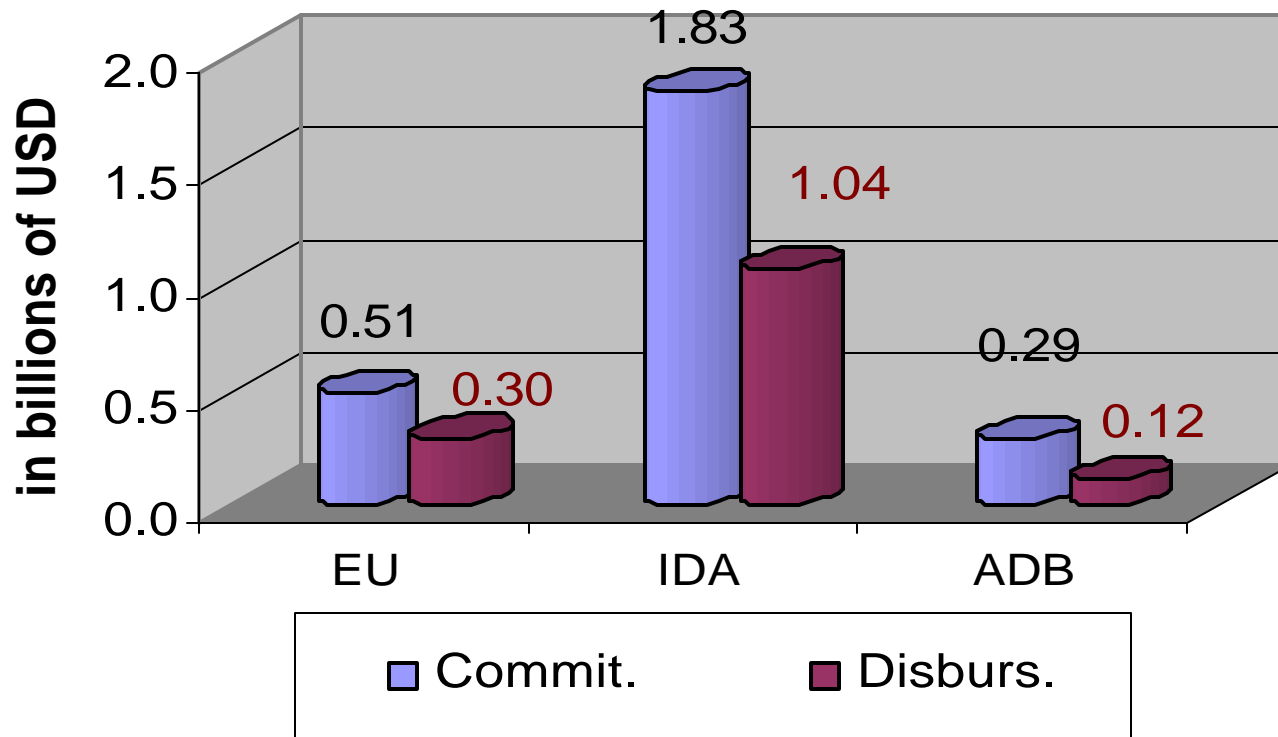
# Current aid delivery systems (4)

- For instance:
  - The average age of the 67 ongoing projects financed by multilateral donors during Fiscal Year 2001/02 was 3.7 years
  - During this period, average cumulative disbursement for all 76 projects was just 53.6 percent
  - 36 percent of the 76 project have been under implementation for 4.5 to 9 years

- **Current aid delivery systems (5)**

- The lag in disbursement is generally substantial:  
(the data refers to the 76 projects indicated above)

**Commitment and disbursement comparison  
(average)**



- Current aid delivery systems (6)

- Delays in disbursement are caused by, among others:

- The complexity of procurement modes specified in project agreements
- Approval requirements by donors for most procurement actions
- Special account arrangements and the associated replenishment arrangements
- Formalities and procedures associated with disbursement applications

## • Current aid delivery systems (7)

- In some sectors, pre-implementation preparations involve significant delays (e.g. road sector)

Project Name	Feasibility Completed (Date)	Finance for construction secured	Project contract signed	Elapsed time since feasibility
AAJM	Dec. 1994	Jun 1998	Mar 1999	4 years
TRKM	Aug. 1997	Jan 1999	Nov 2000	3 years
CMML	Jun 1999	Dec 2000	Not Yet	3 and half years
CMWLD	Aug. 1997	Jan 1999	Not Yet	5 and half years

- **Current aid delivery systems (8)**

- In summery, current aid delivery systems have resulted in:
  - Reduced amount of annual disbursements compared to what the country needs to implement its development programs
  - Complaint and rejection by Regional States of assistance originating from some donors (the latter being donors with complicated and rigid procedures)

### 3. *Changes required to improve aid delivery*

- Alignment of the different cycles practiced by donors with the government cycles, including:
  - Budget cycle
  - Reporting and monitoring cycles
  - Annual review cycle

- Changes required to improve aid delivery (2)

- Relying on government systems instead of creating and using parallel systems for:
  - Procurement
  - Disbursement
  - Monitoring and evaluation
  - Reporting

- **Changes required to improve aid delivery (3)**

- Providing aid in the form of direct budget support
- Providing resources in a predictable and multi-year basis
- Relying on government's planning and review cycles for policy dialogue
- Simplifying and standardizing the procedures governing ongoing projects

## 4. *Next Steps*

- In recognition of the burden imposed by the existing aid delivery arrangement, we expect this high level forum to endorse the need to find solutions
- Based on good practice principles, donors should agree to align their systems to the government's systems
- An action plan to put in place the required changes will be needed
- A forum to review the implementation of the harmonization process will be required

## 5. *Concluding Remarks*

- Per capita aid flow to Ethiopia is very low
- On the other hand, implementing poverty reduction strategies will require substantial amount of external assistance
- Apart from an increase in resource flow to the country, the poverty reduction effort can be supported with harmonized donor procedures

## • Concluding Remarks (2)

- For this purpose, assistance in the form of DBS is preferable
- In addition, the rules and procedures employed in project and program based support should be streamlined and harmonized
- Harmonization should proceed with the objective of aligning along Ethiopia's systems