

**MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN
GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND (UK) AND GOVERNMENT OF THE FEDERAL
DEMOCRATIC REPUBLIC OF ETHIOPIA (GOE)**

Purpose

1. The objective of this Memorandum of Understanding (MoU) is to establish a long-term partnership between UK and GOE in order to give effect to our joint commitment to poverty reduction in Ethiopia. The MoU seeks to build trust between us by setting out mutual commitments and expectations which will improve the predictability of behaviour of both sides. It provides for regular dialogue and establishes the range of policy issues that may be covered in this dialogue because of their relevance to achievement of the Millenium Development Goals. It also provides a transparent framework for accountability between us and for the UK Government to its Parliament and people.
2. GOE enters into this arrangement on its own account and on account of all the national regional states of Ethiopia.
3. This MoU will come into effect on signature by UK and GOE and will have a duration of 10 years, subject to review.

UK Commitments

4. The UK wishes to support GOE's plans for poverty reduction and progress towards the Millenium Development Goals as set out in the document "Sustainable Development and Poverty Reduction Programme" (SDPRP). In a framework of mutual accountability, and subject to its internal management procedures the UK gives commitments as follows:
 - a) To provide a substantial proportion of UK development assistance as **Direct Budget Support**. Details of individual assistance interventions will be set out in separate documentation which will be subject to the provisions of this Memorandum. At this stage the indicative figure for Direct Budget Support is at least £60m over the next three years, in addition to which we will also provide associated Technical Cooperation, plus humanitarian support as necessary.
 - b) To provide other targeted **Technical and Financial Development Assistance** in areas to be agreed jointly. Details of individual assistance interventions will be set out in separate documentation which will be subject to the provisions of this Memorandum.



- c) To support GOE's **Donor Harmonisation** efforts, for instance by aiming to provide much of our support through a common framework and through joint working with other development partners (eg on capacity building and decentralisation with the World Bank on the Public Service Delivery Capacity Building Programme), and through increasing reliance on GOE systems (eg for planning, implementation, monitoring, financial reporting, audit etc) in step with progressive strengthening of these systems.
- d) To contribute to **Capacity Building** to support SDPRP implementation (e.g. in Education Sector Development Programme; on public finance management; on monitoring and evaluation; on participatory planning at the local level) including through pooled funding arrangements with other donors.
- e) To provide GOE with **Information** on past and future disbursements, as far as possible in ways which will meet GOE budgetary management requirements (and also to inform GOE regularly and in an agreed format of other support provided to Ethiopia by DFID, for example to civil society through the Partnership Fund).
- f) To increase **Transparency** by making publicly available the Ethio-UK MoU and the UK Country Assistance Plan.

GOE Commitments

5. The GOE wishes to create a conducive environment for development partners to increase resource flows to Ethiopia and to improve aid delivery mechanisms, for instance using budget support (SDPRP 13.9). Such an environment will be dependent on progress on policies and programmes reflected in the SDPRP and discussed at the Consultative Group in December 2002, but also on progress in some other areas, which will affect prospects for poverty reduction and the strength of support within partner countries for a development assistance programme with GOE, especially a programme incorporating provision of Direct Budget Support.

6. In order to create a conducive environment for UK development assistance and in the framework of mutual accountability, the GOE gives the commitments below. These commitments are entered into by the GOE on its own account and on account of the national regional states of Ethiopia:

- a. To adhere to prudent **Macroeconomic Management**.
- b. To pursue policies for sustainable and equitable **Economic Growth** and private sector and external sector development.



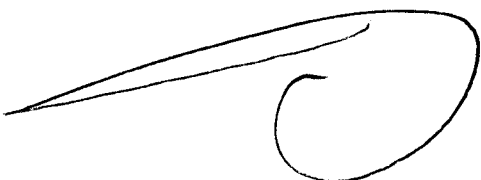
- c. To strengthen **Public Finance Management** (including tax reform, public expenditure management, civil service reform, and fighting corruption).
- d. To improve **Service Delivery to Poor People**, (including through public spending).
- e. To ensure **Justice** is accessible to all citizens (including through implementation of Justice System Reform).
- f. To protect the full range of **Human Rights** including economic and social rights of all Ethiopians, especially the poor.
- g. To enhance **Democratisation** that serves all Ethiopians especially the poor.
- h. To enhance the role of **Civil Society**.
- i. To implement **Capacity Building**.
- j. To address **Gender** inequalities.
- k. To implement processes for effective **GOE-Donor dialogue** on progress with and policies for poverty reduction.
- l. To implement processes for development **partnerships with civil society and the private sector**.
- m. To implement sound arrangements for **SDPRP monitoring** (including by non-state actors), **reporting** (including to development partners), **review and revision**.

Other Issues relevant to achievement of poverty reduction.

7. The UK and GOE will discuss wider issues of mutual interest and concern, and where applicable will seek to undertake the necessary steps to bring about positive change.

8. These areas include but are not limited to;

- a. Possible UK contribution to reform of the security sector in Ethiopia;
- b. Promoting Regional Security by working for peace and stability with other countries;
- c. International trade policy issues.



Monitoring and Review Process

9. Target-setting, monitoring and review of progress under this MoU will as far as possible be coordinated with other development partners under (i) the Common Monitoring Framework for Direct Budget Support being developed by GOE with the World Bank and other partners; and (ii) the work of the GOE Aid Harmonisation Joint Task Force. In addition there will continue to be regular ad-hoc bilateral dialogue at political and official levels.

10. If other matters which GoE or UK consider to be relevant to the objectives of this MoU need urgent discussion either side may call for dialogue , with the aim of working cooperatively to resolve the points at issue.

11. Conscious of the importance of maintaining development flows, our expectation is that the mechanisms for dialogue described above will resolve differences. However in exceptional cases where it has not been possible to resolve differences of view, and which are deemed by the UK seriously to undermine progress on poverty reduction, the UK reserves the right to suspend disbursements of development assistance.

12. The partners recognise that many of the commitments in this MoU are long-term in nature, requiring sustained political effort and development assistance, and therefore agree to review progress under the Memorandum periodically, especially after significant developments.

13. To inform such a review, independent experts may be commissioned in advance to provide an assessment of progress under the MoU and of the MoU process itself.

For the Government of UK:

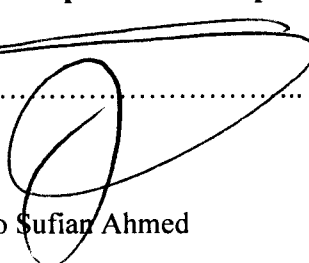
Signature.....

Name: Clare Short

Title: Secretary of State for International Development

Date: 20 January 2003

For the Government of the Federal Democratic Republic of Ethiopia:

Signature.....

Name: Ato Sufian Ahmed

Title: Minister of Finance and Economic Development

Date: 20 January 2003