



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**CHALLENGES OF DONOR FINANCED DEVELOPMENT
PROJECT
IN ETHIOPIAN PUBLIC SECTOR –FEDERAL LEVEL
A CASE STUDY OF EUROPEAN UNION COOPERATION**

**BY
BITEWLIGNE CHALLA**

**DECEMBER 2016
ADDIS ABABA
ETHIOPIA**

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENT
FOR THE DEGREE OF MASTERS OF BUSINESS ADMISTRATION (MBA) IN
ACCOUNTING AND FINANCE**

**ADVISOR
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DECEMBER 2016

ADDIS ABABA

ETHIOPIA

**APPROVAL SHEET
ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

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DEDICATION

I dedicated this project manuscript to my late parents Ato Challa Dibaba and W/ro Zenebech Waktola for their contribution to my life and helped me through different circumstances and but who lost such a chance, may all of them Rest In Peace. Especially this paper is for the **memory** of my elder sister **Bekelech Challa**, who lost her life hereby large scarification for our family and especially for me; from the beginning, she had been given invaluable support to coup up all challenges that I have faced for reaching this stage. She said“.....”any ways may she Rest in Peace.

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **Tiruneh Legesse (Ass.Prof.)**. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any higher learning institution for the purpose of earning any degree.

Name

St. Mary's University, Addis Ababa

Signature

December 2016

ENDORSMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university Advisor.

Advisor

St, Mary's University, Addis Ababa

Signature

December 2016

ACKNOWLEDGMENTS

First of all and foremost, my heart-felt gratitude and respect goes towards Almighty God for everything he did for me through my life in granting me the strength, wisdom, knowledge and the courage needed throughout the period of study.

Second, I am heartily thankful and appreciation to my main advisor and instructor Tiruneh Legesse (Assistance Professor), whose encouragement, guidance, and support from the initial to the final level enabled me to develop an understanding of the subject and complete the study.

Thirdly, my sincere and deepest gratitude goes to Ato Tesfaye Eshetu (MSc.) from the beginning for his unreserved assistance and invaluable encouragement throughout the study period and also I would like to my special gratitude goes to Dr.Tesfaye Alemu for his dedicated cooperation.

Fourthly, I would like to extend my grateful acknowledgement to my beloved daughters Angatu Eshetu and Ephrata Eshetu whose encouragement, great morale and spiritual support was behind me.

Fifthly, I would like to give my thanks to the all respondents and officials for responding me full information objectively in sufficient and for their understanding and providing me with all the necessary information and documents required to carry out this study.

Last but not least, I am also indebted for my family, friends and to all those who helped me for the accomplishment of my study.

God bless you all!!

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LIST OF ABBREVIATIONS/ACRONYMS

ACP	African Caribbean Pacific Countries
AMP	Aid Management Platform
CSO	Civil Society Organization
CSP	Country Strategy Paper/Country Support Program
EU	European Union
EUD	European Delegation to Ethiopia
EDF	European Development Fund
EFY	Ethiopian Fiscal Year
GOE	Government of Ethiopia
GAAP	Generally Accepted Accounting Principle
GTP	Growth and Transformation Plan
IDP	International Development Project
IA	Implementing Agency
NIP	National Indicative Program
NAO	National Authorizing Office
NGO	Non-Government Organization
NSAC	Non-State Actors Coalition
ODA	Official Development Assistance
PEM	Project Evaluation Mission
PSC	Project Stream Committee
PRAG	Practical Guide
PM4DEV	Project management for Development
PIU	Project Implementation Unit
ROM	Result Oriented Monitoring
TA	Technical Assistance
MoFED	Ministry of Finance Economic Development
MEDaC	Ministry of Economic Development and Cooperation
MoFEC	Ministry of Finance & Economic Cooperation
MDG	Millennium Development Goals

ABSTRACT

The main purpose of the study is to investigate the Challenges of Donor Financed Development Project in Ethiopian Public Sector at federal level the case of European Union Cooperation. In light of this objective, the study adopted descriptive research design; data was collected through questionnaires and interview. The study adopted both quantitative and qualitative method of research approach that is mixed approach. 34 semi-structured questionnaires were constructed and distributed through e-mail and personally for target populations whereas structured interview were conducted personally a face to face interview with the total population of the project staff who are working in federal level Public Sector, National Authorizing Office and European Union Delegation to Ethiopia. The data collected through questionnaire were analyzed using statistical tools such as frequency, mean and standard deviation for descriptive statistics quantitatively whereas interview was analyzed using summarizing of the respondents responses. The research findings indicate that the most important for unsuccessful implementation of development project in Ethiopian public sector are: unmotivated project staff, high turnover of project staff ,low salary scale, rigged and complex nature of donor rules and procedures, lack of capacity of project planner, inappropriate project manager, lack of strong ownership of a project, delays of progress and implementation report, unclear lines of Authority and responsibility due to structural of the organization, and so forth. Those the above challenges result show that, our country classified as non-efficient, loss of foreign currency, low performance and failure of a development project, and lack of additional resource from development partner. In conclusion, it appears that Ethiopian public sector suffers from the above challenges. Based on the finding of the study, the researcher forwards some recommendations to stakeholders of European Union development partner and suggest for further researches.

Keywords: *European Union, Public Sector, Implementing Agency, Development partner, Development project, Poor performance, Project Failure, Challenges, Funds.*

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

This research is focused on Challenges of Donor Financed Development Project in the Ethiopian Public Sector (at Federal level): the case of EU Development Cooperation. Donor Financed Development Project or International Development Project (the term used interchangeably) are defined as projects funded by international donor organizations that focus on development issues such as poverty alleviation, health, education, agriculture, food security, trade, private sector development and institutional capacity building in developing countries,(Diallo and Thuiller, 2005).

Donor financed development project are generally undertaken through projects .These projects are financed mainly by multilateral and bilateral development agencies. However, management of these projects, which have less tangible objectives and deliverables, differ considerably from conventional industrial or commercial project types that have more tangible objectives and deliverables (Yoker, 2004).

Usually international donors donate funds by developing projects to help the developing countries in need .Customarily for development projects prepare CSP (Country Strategy Paper) with NIP (National Indicative Program) used as a tool to convince donors by justifying why the fund is needed. Hence donation is very important for one country; the European Union (EU) has been a major part of development partner and a large donor of development aid in the world for a number of decades.

The EU development projects are projects that EU bodies select for funding in accordance with its strategic priorities and must be managed in accordance with the EU operational and financial rules. The size, complexity and importance of EU projects in economic, political and other terms call for the application of project management throughout a project's implementation. Considering that EU projects have special

attribution that distinguish them from traditional projects ,that give huge contribution create different and wide opportunities for four decades to Ethiopians .Thus Among the component of the General Government of Revenue of Ethiopia, besides Domestic Revenue, Grant and External loans are one of the major source of revenue, getting from External Assistance (development partners). It follows that its size and complexities also create challenging activities in managing EU projects must also differ somewhat from activities involved in managing conventional projects, (MoFED 2014d: 27).

During the third-five year plan (1957-1973) of Ethiopia, 25 percent of the required total investment was covered by external public capital. During that period, what Ethiopia has been receiving was not small. It was often argued that the direction of foreign aid was characterized by negligible long term run objectives, in favor of infrastructure service composed to direct investment activities of Agricultural and Industry sector in the form of development project. Similarly, during the post revolution period, 37 percent of the total annual campaign of (1979 -83) was financed by foreign aid, (Tolosa 2001).

Currently, development partners ‘financial flow through program aid modality was higher than project aid modality between EFY 2003 and 2004. However, after EFY 2005 Program aid modality had been declining, while project aid modality increasing. Now, during GTP I implementation period from 2003 to 2007 EFY 42 multilateral and bilateral development partners committed for 407 projects implemented in 18 sectors supported Ethiopians development efforts in the past year, (MoFED 2016:2-12).

This paper tried to indicate the views of different researchers and practitioners on the basic challenges of donor financed development project in managing EU funded projects in sectorial ministries at federal level in Ethiopia.

1.2 Statement of the problem

Donor financed development projects or an international development projects (the term used interchangeably) which involves international participation by the international multilateral government or non-government organizations through financing and

technical assistance. These projects commonly involved *three* separate key stakeholders, namely the *funding agency* that pay for but does not directly use project output; the *implementing unit* and the *target beneficiary* who benefited for project output usually don't pay for the project, (Ashan, 2010).

Project environment for international development is far more complex than domestic, visible and invisible factors. There are many internal and external, visible and invisible factors that influence the environment that create high risk in accomplishing project objectives. This characteristic makes them unique thus require a different planning and implementation than domestic projects (Young 2001). These projects are different from other types of projects for a number of reasons and the approaches to implement must also be different, Project Management for Development (PM4DEV 2014). This is particularly true for international development projects that presents very peculiar characteristics (e.g. Not-for profits nature, high stake holders involvement), (Golini.et.al, 2012: Youker, 2004).

Ethiopia has started planned economic management since mid-1930's .This management system has varied with the socio-economic and political systems (Feudo-Capitalist, Socialist-oriented and market -oriented with decentralized management).Under all these systems it was common concerns that development plans were in place with the objective to improve the standard of living of the population .However the basic development needs of the country were and still are consternated by many factors i.e. low domestic savings, low external finance and investments. This had made the country heavily dependent on external loans and grants finances its development projects/programs, (MEDaC 1996, MoFED 1992).

In all the above mentioned three system s, the public sector has played and still is playing dominant role in the implementation of development plans mainly through the design and execution of development projects. As a result financial resources available both from foreign and domestic sources, it has been channeled in the form of public investment through development projects, (MoFED 1992).

Resource mobilizations are key concept behind Official development Assistance (ODA). The two concepts are interdependent in the sense that mobilization itself become a function of utilization i.e. utilization of available resources is determining additional resources flow to any country. Ethiopia benefits from resources mobilized from bilateral and multilateral sources. These resources are used to implement development projects across a wide range of sectors. These resources are contributing to the government effort to bring a marked difference over the lives of its people and the country's economy. Still now, it can be said that external resource is relevant to bridge the financial gap of Ethiopia in the GTP implementation period. External Grant should a 33.3 percent increase in 2010/11 (NBE 2010/11:89), this shows that external resources has been playing the great role in the socio-economic development of Ethiopia since 1950's, (MEDaC 1996, MoFED 2011b:21).

Most of EU development projects donated through government of Ethiopia implemented at public sector and regional offices .Despite the fact the Ethiopian public sector plays important and dominant roles in the overall development process of the country, the performance of the sector as measured by all indicators was not satisfactory because the magnitude of the development problems in the country justifies a huge inflow of external resources for development projects is so slow ,that committed resource lie unused for a long period of time as may be referred to the low disbursement rate of many development projects and programs. However, in Ethiopia much of these resources have not been effectively meet the desired development objectives, (MoFED 2016, MoFED 2011b).

Thus, EU development cooperation projects are very specific because of their unique environment. They are characterized by the relative intangibility of their ultimate objective of poverty reduction, complexity and size. Apparently, managing in EU funded projects is also having the above problem. When managing EU financed development project, always shows low performance of project shows in Ethiopian sector ministers, institutions and agencies. Audit report confirmed that much amount of fund had been tied up or unjustified amount (used a terminology in EU) shows at the Bank. Such unutilized

fund affects project implementation process at public sector in particular and realization of goals of the country in general, (EUDE, 2015).

In relation to a development project financed by EU, such challenges in sectorial ministries are lack of knowledge of contractors and Technical Assistance(TA's) ,the unutilized fund don't returned on time ,donor accounts are not used with a proper documents, delays of implementation and financial report, high project staff turnover, low scale salary for project staff, unmotivated project staff (Top-Up),low scale of per diem rate, unclear lines of authority and responsibility to structural organization, shortage of vehicle for flied trip, delaines recruitment of TA (Technical Assistance) lengthening procedure of procurement & EDF system, lack of experience for donors rules for disbursements, poor project design that can't be done on the side of implementing agency and so forth. The researcher employed more than 7 years' experience in this project, (MoFED 2011b, EDF 2013); in relation to this topic no research has been done on the subject area in Ethiopia.

Based on the above background, the current research project intends to identify challenges of EU funded projects in Ethiopian public sector–federal level and recommend on it.

1.3 Basic Research Question

The study attempt to answer the following research questions in connection with the challenges of EU funded project in the Ethiopian public sector (federal level).

1. What are the Challenges behind managing of EU development project to public Sectors (federal level)?
2. Does the public sector correctly applied donors rules and procedures?
3. Are the beneficiaries adequately involved during project design?
4. Why the existence of underutilized fund in EU development project at public sector?

1.4 Research Objective

1.4.1 The general objective of the study

The general objective of this research is to assess Challenges of donor financed development projects in the Ethiopian public sector: the case of EU Development Cooperation.

1.4.2 The Specific objective of the study

In order to meet the general objective, the study investigates the following specific objectives.

1. To explore the Challenge that exists in public sector development projects financed by EU.
2. To see whether donors rules and procedures are correctly applied or not at public sector.
3. To assess the involvement of beneficiaries during the project design.
4. To examine the cause of underutilization of EU Development funds at public sector.

1.5 Scope of the Study

The Scope of this study is being determined by the following elements: Conceptual, Geographical and Methodological.

1. *Conceptual Scope*; the domain of this research is limited to the European Union development cooperation project in Ethiopia which are already finalized during the last 5 years and ongoing from (2012 to 2016), the research conceptually focus on a challenging of development project that are mainly implemented by sector ministries at federal level.

2. *Geographical Scope*: since the study is based on the information gathered from specific organization in public sector located at federal level in Ethiopia only, it does not consider other major (key) actors of EU. Due to this, its findings cannot be generalized across organizations in other parts of the world dealing with EU projects.

3. Methodological Scope: the researcher was used a qualitative and quantitative research approach that is mixed approach used an instrument in the form of Interview & questionnaires.

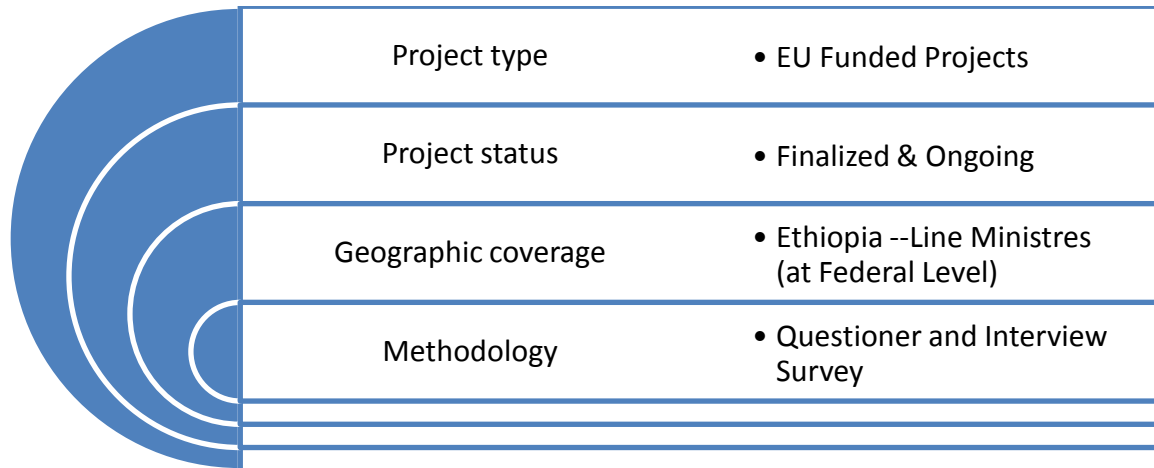


Figure 1.1 Research Scope

1.6 Limitation of the Study

Because of resource and time, fear of access to information and research experience constraints the study was not including other major (key) actors of EU and regional level. The very limited prior research conducted on challenges of donor financed development project experience in Ethiopia was also one of the limitations of the study.

The researcher relied on the sole judgment of the respondents of questioner and interview. Therefore, the result of this study depend heavenly on the quality of their mental model (Bakken, 2008) since perception by their nature are ontological, biased and personal (Liu and Walker 1998), the result of the study can't be generalized with other donor financed project in Ethiopian or outside.

Effort was made to exhaustively utilize the relevant research done, and gather secondary data every angle within and outside the country on different topics and reviewed them critically to minimize the limitation.

1.7 Significance of the Study

In this paper, the researcher adds to the recent and limited micro level evidence on the challenges of donor financed development projects in the Ethiopian public sector: the case of EU development cooperation. The relevance of this study can be seen from important perspectives:

A. For Governments & Non Governments Institutions

The result will also be an input for policy makers and regulatory body for developing regulations and guidelines

B. For the organization

This study will have the following practical values for all fund beneficiaries of EU especially for Ethiopian government, NAO-MOFEC. The result of the study is believed to give an insight for the organizations management to identify and then propose solutions to overcome the major existing challenges in public sector and exploited the available opportunities of EU development Fund. It will also help for all Budgeted public sector in general and Non- Budgeted public sector in particular or devise or revise their policies and procedures by point out their gaps in fund.

C. For Donors and other stake holders

The recommendation and the suggested possible solutions for the identified gaps can be used as an input for capacity building activities by donors and other stakeholders.

D. For researchers

Theoretically the finding of the study can serve as reference for other researchers to initiate and students interested to explore more in this study and conduct further study on related issues and will add value to the theoretical aspect of the subject matter. Therefore this study will enhance and encourage another research who have interested on an international donor's of Development projects.

E. For Academicians

The finding of this study may have Educational importance to academics who are endlessly finding new trends.

1.8 Definition of Key Terms

Project Aid: project aid is one of the types of foreign aid where the funds are used to finance a particular project, such as school or a hospital (Branczik 2004)

Voluntarily Aid: this is when culinary organizations raise money from the public from the in rich countries and send it off to specific projects in poorer counters .There are no political ties. These organizations are usually the first to provide food, clothing and shelter. There is and Non-government agency, which has given aid to developing countries (www.123HelpMe.com/view.asp).

Humanitarian aid: Which is sent normally to a specific problem and can be donated from country to country directly or through major agencies. When conflicts overly affect civilians both directly and indirectly, through emergencies “that protracted conflicts create. In the immediate area of conflict preventing human causalities and ensuring access to the basis for survival, shelter, and health care, (Branczik 2004).

Tied aid: Tied aid is one of the types of foreign aid that must be spent in the country providing the aid (the donor country) or in a group of selected countries. A developed country will provide a bilateral loan or grant to a developing country, but mandate that the money be spent on goods or services produced in the selected country (www.123HelpMe.com/view.asp)

Aid fragmentation: is the dispersion of aid between numerous donors and /or projects within any given developing country. Or refers to too little aid received from too many donors, (MoFED 2016).

Aid proliferation: is the aid dispersion from the perspective of an individual development partner, how a partner's aid is spread over different sectors (or projects) within a given country, (MoFED 2016).

ODA: Official Development Assistances are an assistance of the large group of countries officially or directly give their Aid to countries (governments). An aid can also be official when it is managed by either a government or government agencies. The unofficial aid is administered by a non-government organization such as a charity.

Fund: is defined as a fiscal and accounting entity with a self-balancing set of accounts recoded cash and other financial resources, tighter with all related liabilities and residual equities or balance and changes these in, which are segregated for the purpose of carrying on specific activities or attending certain objectives in accordance with special regulations ,restrictions or limitations (Copley 2008)). Fund is segregates resource for specific activities, to insure compliance with appropriate regulations or restrictions.

European Development Fund: (EDF) which is an Aid instruments for any payment is done through European Union Fund. It has identified or donated by number for every five years, (PRAG 2003, 2016.)

Recovery Order (RO): is a letter shows for the unspent amount of funds or ineligible amount in a settlement of previous outstanding debit that will be a notice for contracting Authority before issuing a Debit Note.

Offsetting Operation: Amounts that is unutilized fund and ineligible expenditure (cost) owed to the commission need no longer be settled by bank transfer in so far as they have been paid by offsetting operation ,this cost will be deducted from new allocated development project funds.

Aide Memoire: is a report provide an overview of the Project Evaluation Mission's (PEM) key findings, recommendations as the fact finding work in ACP countries and to be present and discussed at a meeting of PSC.

Final Report: will include full description of project implementation to date including key milestones, the program Estimate, Technical Assistance, HR management, procurement reporting and financial management, M&E coordination, visibilities.

Result Oriented Monitoring (ROM) is a type of an external monitoring and reporting requirements which is accomplished by external missions involves based on donor designed /approved monitoring methods and reporting formats to meet the donor requirements.

AMP: Aid Management Platform. This is a type of software and a web-based database, developed by Development Getaway Foundations. **AMP** is used by MoFEC to Mange, Coordinate and Monitor ODA; it also informs development partners about their contributions to Ethiopia's development. By using this AMP software, MoFEC produce Annual Statistical Bulletin. The information contained in this Bulletin will help researchers, government's institutions and non-government organizations in their analysis of (ODA) Official Development Assistance provided to Ethiopia, (MoFED 2016).

Project Failure: in literal sense, is meant anything unsuccessful. It is an unmet expectation which has always come out when what should have been done could not be done. Project being a planned undertaking of inter-related activities to achieve specific mission within specific resources (physical, human financial and time), unfulfilment or under fulfilment of this plan is conceived as project failure.

Poor Performance: in literal definition is unsatisfactory job performance that is a gap between the employee's actual performance and the level of performance required by the organization, [WWW. Maswidemand.com/musings/failure.htm](http://WWW.Maswidemand.com/musings/failure.htm).

Performance: Ability X Motivation

Actual Commitment: is the amount of resources committed on the date the agreement was signed

Disbursement: Actual receipt of or flows of funds

1.9 Organization of the Study

To successfully address the objective, this study expected to classify under *five* chapters. *The First chapter* highlights the paper, the targets to shot upon; how to make and why to start the study which includes outlining statement of the problem, basic research question, objectives of the study, its significance and scope and limitations of the study. *The Second Chapter* deals with review related literature to distinguish previously undiscovered areas to cover the ground for what is to be obtained in this study. *Chapter three* covers about research design, population, source of data, and procedures of data collection and methods of data analysis. *The forth chapter* covers findings of the research and their presentation analysis and interpretations. Finally the *last chapter* presented the summary of findings, conclusions draws from analysis and possible recommendations for the identified challenges also suggest for needed further researches.

CHAPTER TWO

2. REVIEW REALTED LITURATURE

2.1 Introduction

This chapter reviews the previous work that are related and relevant to the proposed study in order to understand this different facts associated with the study area and create common knowledge on the topic both theoretical and empirical review is made on literature of the area.

Many organizations use projects to requests that can't be handled within the normal organizational limits .Similarly, most international support provided by governments or NGOs is provided via projects, (Diallo and Thuillier, 2005). By consequences, International Development projects or Donor financed Development Projects (the word used interchangeably) are gaining increasing importance in the fields of projects management and International development cooperation.

2.2 Historical Background of Ethiopian-EU Cooperation

The Golden Anniversary was celebrated of EU, was established in 1957at Rome, by saying the *treaty of Rome*....this treaty was revised and structured in new idea in 1992, ”*thetreaty of maastrich*” by the number of 5 EU countries only,{9 Nov.1888—16 March 1979,Jean Monnet one of the founding father of European Union},{WWW.EU, The Courier 2008:10).

The foundation of ACP group signed in 1975; the *Georgetown* agreement is the foundation of the African Caribbean and Pacific (ACP) group. Over the years its membership has swelled to 79 nations. The agreement was revised in 2003 to bring in aspects of the new ACP-EU partnership agreements, under the Cotonou agreements, (Courier, 2008:10).

The Cooperation between Ethiopia and European Union has been widening since signing of Lome I in 1975, thus, they have been development partners for 40 years. Ethiopia is

one of Africa, Caribbean and Pacific (ACP) member countries that benefited from European Union (EU) development partner under the Lome Convention and the Cotonou Partnership Agreement. The Cotonou Partnership agreement was signed between 77 ACP & 15 EU member countries in Benin-Cotonu at June 23, 2000 (EC). This Agreement is a Partnership between signatories covering Political, Economic and Trade relation, as well as Development Cooperation ,(EDF 2013).

Nowadays, the number of member countries on Cotonu Partnership signs in the side of ACPs its reaches 79& on beside of EU 27 members are signed. The cooperation between the two parties have grown from protocol to protocol in scope and coverage enabling the country to implement tremendous programs and projects which contributed to the improvement of the lives of significant number of our people.

The major (key) actors of ACPs and EU cooperation are: Government--in the case of Ethiopia, that is NAO -MoFEC, Non-state Actors, NGOs, CSO, Associations, private Sectors, Parlama & European Union.

Several projects implemented through the European Union development assistance have been contributed to the betterment of the lives of significant number of Ethiopian and EU is one of the major donor partners of Ethiopia that contributes 10% from the total annual Official Development Assistance received by Ethiopia. For the cycle of 2008-2013 (the so-called 10th EDF), 689 million Euro was allocated to programs in Ethiopia with the main focus on transport and regional integration, rural development and food security ,basic social service and democratic governance . EU pledged another 745million Euro in its 11th EDF to be implemented from cycle of 2014 to 2020.It focuses on sustainable agricultural and food security, mainly targeting vulnerable population groups, health ,road infrastructure , (MoFED 2014e,WWW.EU).

Additional support to Ethiopia is channeled through other EU initiatives, in particular the Energy and water Facilities, the instrument contribution to Stability and Peace, the Global Climate Change Alliance, the Instrument for Democracy and Human Right and EU

Humanitarian Assistance, in total, the value of EU *development assistance* to Ethiopia has averaged an estimated 160 million Euro per year, (EU-ETH 2015).

The quality of aid and its joint management structure can be pin pointed as the two major positive characterized of EU development partner and mutually benefits both sides. When it comes to mutuality, what makes EU assistance unique is that, the development fund which flows to Ethiopia is not Donor-Driven but it is Demand-Driven, moreover the development partner has been managed jointly it gives the beneficiary a clear ownership over the resource and achieving the Growth and Transformation Plan through which Ethiopia is working becomes a middle income country by the year 2025, (MoFED 2014e, EDF 2013).

2.3 Definition

Development project is the “smallest operational elements prepared and implemented as a separate entity in a national plan or program” Gittinger (1996). The terms” Development aid” and “Development Cooperation” are often used interchangeably. In all cases, the term refers to support given by Governments and other agencies to developing countries with the intention of supporting the economic, social, and political development of the recipient. Development support usually involves a long-term commitment, and is distinct from humanitarian aid, which is mostly delivered in short term, (MoFED 2014d).

International development projects, as defined by (Youker1999b, Austin, 2001) are medium to large public projects and/or programs, which are implemented by a local project team in developing originally. International development projects have a goal of reducing poverty and cover many sectors characterized by both soft and hard areas. *Hard projects* include agriculture, infrastructure, and water supply & sanitation and *soft projects* are resettlement, basic health care, education, Social welfare and capacity building, environment protection, basic human rights protection assistance for victims of natural or people-caused disasters

2.3.1 Objectives of Donor Financed Development project

Recently Donor financed projects are going more importance among project professional due to their nature and contribution to developing countries and it should be development oriented having the following objectives, (Ashan2010, Sharif 1999).

- ❖ *Poverty reduction*: Including Poverty assessment in recipient counties to identify key policy issues and recommend a strategy for reducing poverty .To enhance the socioeconomic development of the local population including health, education, and basic social services.
- ❖ *Human development*: including health nutrition, and population programs. These include designing effective policies to improve performance of both private and government health systems. To enhances human capital productivity by improving the operation of the labor markets.
- ❖ *Environmentally Sound Development*: Strengthening the national environmental agenda, building local capacity for environment management, and revitalizing rural development and sustainable agriculture.
- ❖ *Finance Private Sector and Infrastructure Development*: restoring confidence in financial systems, strengthening institutional capacity of the society, helping evaluate fiscal situation, helping countries to strengthen and sustain the fundamental conditions they need to attract and retain private investment ,and identify policy options to promote fiscal discipline, helping its client government improve their economic and social policies so as to increase efficiency and transparency ,promote stability ,and bring about equitable economic growth .

2.3.2 Source of Financing of Donor Financed Development Project

The followings are category of donors that's are providing direct and indirect support which are implemented by a local project team in developing and they are *financed* by the following types of institutions, (NSAC 2011, Brancizik, 2004).

i) Bilateral agency and Embassies such as Irish Aid, CIDA SIDA, USAID, JICA sometimes known as Bilateral Development Assistances the word is used

interchangeably. This aid is between two different countries. It is assistance given by a government directly to the government of another country; bilateral aid is usually the largest share of a country's total aids. However, it has carries problems. Donor governments inevitably have competing multiple interests, only of which are peace building. During the Cold War, geopolitical concerns were paramount. Economic and commercial interest is at stake, with roughly half of all bilateral aid tied to imports of goods and services from the donor country. When the capital flows from a developed nation to a developing, to assist development projects, to promote democracy, bring economy growth, stability and development in long term, (Branczik, 2004).

ii) Multi-lateral Organization: where multiple countries donate to a central organization and an aid can also be official when it is managed by either a government or government agencies. Or many government who pool funds to international organization like UN, EU, IMF UNDP, UNICEF etc.

iii) International Financial Institutions are like IMF, World Bank (WB), African Development Bank (AfDB) etc. support provided by these donors usually flows through other multilateral, international or national apex organizations.

iv) International NGOs such as OXFAM, Save the Children (UK, Denmark, USA, Canada) CARE Ethiopia, CONCERN Ethiopia, and Norwegians Church Aid etc. theses category of donors is also a major contributor especially for NGOs; mostly it operates as a long term partner for their contribution to sector projects / programs.

V) Private Donors: are donors that have given a huge amount for developments and humanitarian services from, Melinda & Gates, Clinton Foundation, David and Lucile Packard Foundation.

2.4 Evolution of Aid Modalities in Africa

Most western countries initiated aid programs in Africa in the 1960s in the wake of independence former colonial states. In this period, donors encouraged African

governments to plan their countries development and urged the adoption of policy encouraging industrial growth. In the 1970s, the focus of aid shifted increasingly to poverty alleviation with a priority on projects to develop rural areas. In the 1980s, with the economic crisis in Africa and debt defaults associated with it, donors were forced to reconsider the effectiveness of project aid modality. In the 1990s, because of the limitation on the extent of reforms and the continuation of low growth rates in most of Africa, donor agencies turned to look for other causes of lagging growth. Poverty alleviation and improvements in the socio economic welfare of vulnerable objective of development, (Ofunya, et. al. 2013).

2.5 Evolution of Donors in Ethiopia

The Government of king Haile-Selassie, he did not provide a favorable environment for INGO to come into the country & provide assistance in alleviating the widespread poverty and related social problems, (Abraham, 2013). Before the famine services, (Campbell, 1996).

During (1974-1991) the Derg Regime, INGO, continued to have limited roles in providing development assistances. For the following two reasons *first* international donors were not willing to provide development assistance to Ethiopia because of government communist ideology and, *second*, the military government was surprising of the motives of INGO and their local affiliates when their organization demanded to operate in the country autonomously, (Campbell, 1996).

The current government of Ethiopia which is led by the EPRDF (Ethiopian Public Revolutionary Democratic Front) took power in May 1991 and has been more supportive of INGO involvement in the country as a development partner (Abraham, 2013). The government in consultation with the donor community and INGOs (refers to as development partner) rolled out three five year development plans that aim at breaking the cycle of poverty, doing away with dependency on foreign aid and coordinating a multi sector intervention to improve the living conditions of people. these development

plans are: Sustainable Development and Poverty Reduction Program (SDPRP) that run from 2000/01 to 2005/06 plan for Accelerated and Sustained Development to end Poverty (PASDEP) that run from 2005/06 to 2009/10 and growth and Transformation Plan (GTP) which already began in 2010/11 and the scheduled had been completed in 2015, (Abraham 2013, SDPRP, 2002, PASDEP, 2006, GTP I, 2010).

The Government of Ethiopia invited INGOs and Private organizations to be partners for poverty reduction programs and followed this initiations several INGO established themselves in the country and managed diverse kinds of projects within the program. Most of the foreign donor organizations formed a group called Donor Assistance Group (DAG) to organize their effort and influence the government policy on development project as well as use of donor funds. So due to this several INGO (Donors) have directly or in partnership with domestic NGO's and implemented projects with a purpose of achieving the government goals (Abraham 2013:17) over the past 10 years INGOs have shifted from the director sale control of projects implementation to partnership with many of these domestic NGOs.

Aid Modalities in Ethiopia

Aid Modality is a tool to transfer money, good, and knowledge from developed to developing countries .Aid modality is not a development strategy per se. But it determines how funds and knowledge are transmitted to recipient countries, how goods are procured, and how recipient and donors interacted in such processes or Aid modalities are the methods or approaches used to finance development activities. It is clear that the manner in which ODA is delivered affects outcomes.

A successful aid program requires matching one or more elements of a desirable development strategy with an appropriate aid strategy, supported by well-designed modalities and effective implementation, and one might argue that some aid modalities are more effective than others consequently; it importantly affects the nature of aid

relationship and the effectiveness of addressing development problems in recipient countries, (MoFED2015, 2016).

Figure 2.1 Donors Aid Modality through GOE-MoFEC

Aid Modality	Actual Disbursement											
	EFY 2003	% Share	EFY 2004	% Share	EFY 2005	% Share	EFY 2006	% Share	EFY 2007	% Share	Total	% Share
Project Aid	1162.7	43.0	1247.4	49.1	1587.0	53.8	1814.5	54.6	1511.8	59.5	7323.3	52
Project Support	1155.4		1171.8		1524.1		1659.9		1443.5		6954.8	
Food Aid	0.0		69.4		56.8		142.9		9.2		278.4	
Technical Assistance	7.228		6.132		6.002		11.628		59.148		90.1	
Program Aid	1540.5	57.0	1294.8	50.9	1360.6	46.2	1507.4	45.4	1027.4	40.5	6730.6	47.9
Program Support	1532.8		1279.4		1345.8		1416.8		925.4		6500.2	
Direct Budget Support	0.0		0.2		1.5		67.7		85.7		155.0	
Sector Budget Support	7.7		0.0		0.0		17.8		0.0		25.5	
Pool Fund	0.0		15.2		13.2		5.2		16.3		50.0	
TOTAL	2703.2	100.0	2542.1	100.0	2947.5	100.0	3321.9	100.0	2539.2	100.0	14053.98	100.0

Source: (MoFED 2016),

The above table indicates that share of donors disbursement through program aid modality was higher than project aid modality between EFY 2003 and EFY 2004. However, after EFY 2005 Program aid modality declined, while project aid modality increased. It is known that stand alone projects have: coordination problem, with a number of aid projects and high transaction cost of aid delivery, with the proliferation of aid projects (often with different reporting requirements and sometimes with competing objectives) imposing heavy administrative burdens on recipient countries, (MoFED 2016).

2.6 Donors Theory in Terms of Their Role

Most of external fund flows to developing countries have a reflection on Recipient Countries. Those are Development, Dependency and Sustainability.

Development Theory: Todaro and Smith (2006), defined development as a multidimensional process involving major changes in social structure, proper attitudes and national institutions as well as the acceleration of economic growth, the reduction of inequality and eradication of poverty. Development is a broad concept that entails social, economic, political and human development. Economic growth may bring material gain to the people, but development is much about enrichment of the lives of all the people in the society, (Edwards 1993:38)

Todaro and Smith (2006:16) also agree with Edwards that if a development strategy results in robust economic growth and political stability without a significant change in the quality of life of the masses of people, something is wrong. High growth performance without people participation is clearly economic growth without development. This is evident in Brazil, a country that experienced and suffered the consequences of “growth without development” (Todaro & Smith 2006:27) and its growth performance was the best in Latin America between 1960 & 1970

Dependency Theory: it defines the international system composed of two sets of state i.e. dominant or center, or metropolitan. The dependent state are Latin America, Asia, and Africa which have *low per capita GNP dependency* of an external fund has an effect on the successful of development projects. Development assistance may interfere with local capabilities to deal with problems. This can make recipient countries dependent on aid, and encourage development techniques that are unsuitable when foreign aid dries up. In addition, instead of working together to increase their effectiveness, they will be locked in competition against one another. what civil society initiatives really need is less

expensive, long-term commitment. Development partner (development assistance) not straight forward and they mark many political failures. Ultimately, however, they play a crucial role in saving lives and a role that can be continually improved as lessons are learned and applied, (Brancizik, 2004, Ferraro 1996).

Aid dependency indicators listed in the table below, showed that Ethiopia’s ODA per capita was fluctuating between US\$ 38.2 and US\$ 28.5 during the GTP I implementation period. However the figures under these indicators significantly below the average net ODA per capita received by sub-Saharan African countries as Whole (US\$ 49.33 according to 2013 OECD DAC).

Figure 2.2: Ethiopia’s indicators for Aid dependency

Indicators of Aid Dependency	EFY 2003	EFY 2004	EFY 2005	EFY 2006	EFY 2007
ODA/GDP*100	8.5	5.9	6.2	6	4.1
ODA per capita	33.5	30.7	34.8	38.2	28.5
ODA/GNI*100	8.5	5.9	6.2	6	4.1
ODA/Gross capital formation	26.3	15.8	18.2	15.7	10.5
Per capita income (USD)	395.1	522.7	558	637.6	687.58

Source: National Economic Account Directorate, MoFEC and Aid Management Platform (2007 EFY)

The above aid dependency indicators that external aid was fill the financial gap of the country even though aid dependency was declining in the GTP implementation period. Additionally, it indicates that during the GTP I implementation period, government of Ethiopia showed improvement on the coverage of the budget from domestic sources, (MoFED 2016).

Sustainability Theory: Dempstser (1998) in David W. Chapman et.al (2006) defines sustainability as the ability of an activity or system persists. For the purpose of this research, sustainability is defined as the ability of donor aided programs to create systems that continue to connect and impact on the beneficiary even after the programs are

windup. The sustainability criterion relates to the continuance of positive outcomes of the project at purpose level after the end of external funding. Whether the longer-term impacts of the wider development process surrounding the project can be sustained at the sector, region or country levels is at issue here, (Kunnasvirta, 2012:32).

2.7 Fundamentals of Project Management

2.7.1 Definition of Project

A project, as defined by Wysocki (2009), it has a well-defined objective, sequence of unique, complex and connected activities that have one goal or purposes and that must be completed by a specific time, within budget and according to specification.

The Project Management Institute (PMI) in the Guide to the Project Management Body of Knowledge defines a project as a temporary endeavour undertaken to create a unique product, service, or result (PMI, 2013). Generally a project is a one-time effort to accomplish an explicit objective by a specific time. Therefore, unlike an organisation's on-going operations, a project must eventually come to a conclusion, (Greer 2001). From the aforementioned definitions we can conclude that a project has unique characteristics. A project's main characteristic is; temporary, unique, goal focused, it has time and cost constraints, consists of people, has low volume and high variety and uncertainty.

Similarly Project is unique and to some extent is the best-fit model to manage them. To understand that “*a one-size-fits-all*” approach to project management does not work and has never worked. So many organizations choose to define *classification* of projects based on time, type of products, geographic scope, size, location, sector, technology, nature of the product, source of finance, and ownership etc. (Wysocki, 2009).

2.7.2 Source of Financing for Project

To implement any project, it needs finances .So there are different types of source of project financing, those are: Equity Financing, Debt Financing, Suppliers Credit and Leasing. Debit financing is the best source of financing for a project.

2.7.3 Project Management

Project management is a set of principle, methods, and techniques that people use to effectively plan and control project work. Project Management principles and techniques help-complete projects on schedule, within budget, and in full accordance with projects specification. At same time, they help achieve the other goals of the organization, such as productivity, quality and cost effectives. The objective of project management is to optimize project Cost, Time and Quality, (Richman2002).

Project management can be defined as “the application of knowledge, skills, tools and techniques to project activities to meet project requirements”, (PMI 2013:5). It has been defined also as “the managerial activities needed to lead a project to a successful end”, (Shenhar & Dvir, 2007:94). This field is as well responsible for overseeing change and manage ever changing set of tasks.

Thanks to the (PMD)-Project Management Institute, and (IMPA)-International Project Management Association for the invaluable contribution of Project management today by segregating as a professional felid of studies. Thus modern project management has emerged as a primary solution for large and small business operations and structured approach to planning and controlling projects is a necessary core competence for success, (Richman, 2002).Modern day project management is associated with Henry Gannet’s development of the Bar Chart in the early 1900’s and the technique developed during the military and aerospace projects of the 1850’s and 1960’s in America and Britain, (Igbokwe-Ibeta EDS-2007).

2.7.4 Project Life cycle

Project has generic life cycle that begins with conceptions, initiation, infancy, maturity, old age and death. Not all projects begin are fully completed, (Igobokwe-ibeta, 2007). Project Cycle Management is a term used to describe the management activities and decision-making procedures used during the life cycle of a project. In general terms the “life cycle” consists of phases that connect the beginning of a project with its end to provide better management control through appropriate links to the ongoing operation of performing organizations .According to the PMI (PMI 2013:32), Project management involves five processes: initiating, planning, executing, controlling and closing. This view follows closely on the approaches that address managing the project process (or project life cycle, as it is sometimes described).

Though there are several versions of the life cycle, the most common in *literature* generally are:

(A) **UNIDO** life cycle: United Nation Industrial development Organizations; pre-Investment Phase, Investment phase, Appraisal phase, Evaluation phase.

(B) **Baum** (adapted by the World Bank in 1970). Identification, Preparation phase, Appraisal phase, Implementation phase, and Evaluation phase (added after certain Period (1978).

(C) **NPLC** life cycle: New Project Life Cycle (World Bank 1994) life cycle project phase has emphasis on the issues of participation, particularly relevant to project where beneficiary participation is critical that is: Listing, Piloting, Demonstrating, and Mainstreaming.

(D) **DPSA**, life cycle: Development Project Studies Authority. According to Guideline of project planning in Ethiopia (1990), project cycle compromises three major phases, Pre-investment, Investment, and Operational Phase, (DPSA, 1990).

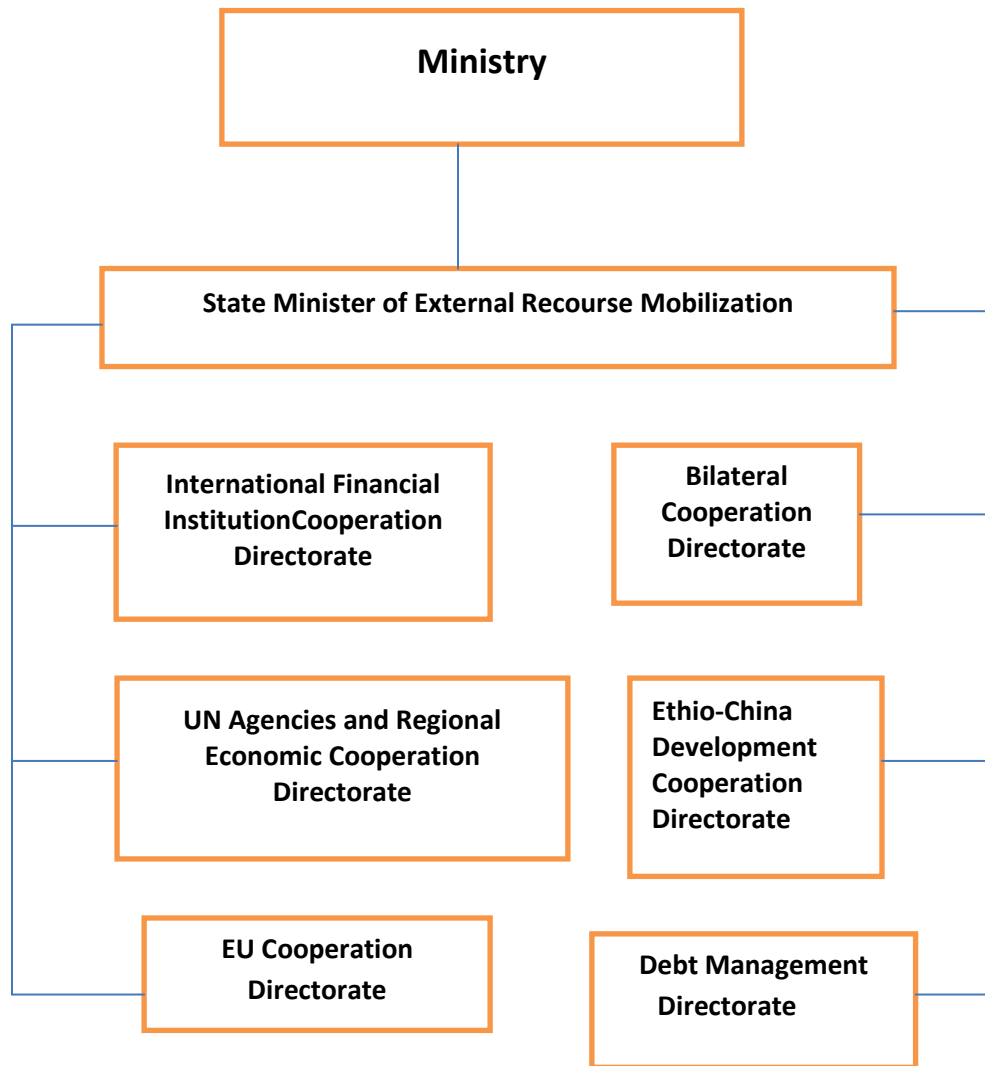


Figure 2.3 MoFEC-External Resource Mobilizations –Flow (MoFED 2013b)

2.8 Ministry of Finance and Economic Cooperation (MoFEC)

According to the proclamation No. 691/2010 Ministry of Finance and Economic Cooperation (MoFEC) shall have different powers and duties .Among them, mobilize, negotiate, and sign foreign development Aids (grants) and loans disbursed from bilateral and multilateral donors on behalf of GOE and follow-up to the government entities (public sector) implementation of them,(MoFED 2013b,FDRE 2010).

European Union (EU)

Ethiopia has experienced more than 10 years of rapid economic development growth. Nevertheless, it is still among the world's group of Least Developed Countries (LDCs). Through its development cooperation, the EU stands by Ethiopia to help it address its key challenges, such as food insecurity, a rapidly growing population, environmental output, and a range of governance issues.

Thus, according to “Cotonu Agreement June 2000 Annex 4:35”, signed between ACP-EU countries, to mobilize and co-ordinate the resources getting from EU. All ACP countries must establish one body that is National Authorizing Office (NAO) to take responsibilities of EU funds in their countries. Based on this agreement our country Ethiopia, MoFEC has taken responsible to the resources of EU funds and, the ministry delegate and establish NAO on behalf of MoFEC (GOE), (NAO-MoFED, 2003).

NAO- National Authorizing Office, this Office has a right to collect external resources (EU funds) from EU cooperation and have responsible to follow the implementation of a development plan of country, sign financing agreement (FA) to disburse the resource from EU member countries, and also follow-up the project implementation and of the right to have release the EU fund to implementing agencies based on financial and activity plan of project proposals,(NAO-MoFED, 2003).

The European Union Projects are a special type of projects, and can be classified as international with regard to their geographical scope. An EU project is a project which the EU bodies select for funding and which, as such, must comply with the EU strategies and be managed according to the EU administrative and financial rules, (EU 2007).

The European Union Programs are development assistance can have various meanings: a set of projects put together under the overall framework of a common overall objective/ goal; or an on-going set of initiatives / services that support common objectives; or still

yet, a sector programme, which is defined by the responsible government's sector policy, (EC 2004).

2.8.1 Specific Features of EU Development Projects

EU projects should fit the organizational strategies of the organization and sometimes it is better to think twice, whether the organization is really interested in activities and results planned within a proposed project. Those projects where the goals, results and added value to the organization are not clear are very risky to cooperate in. (Perić, 2011:5)

The following are specific features of EU funded projects identified by (Perić, 2011)

Project Period

EU Projects imply a long term relationship, meaning that an organization is joining the project related relationships for much longer period than just project implementation - it includes the project preparation and submission phase before, and project final reporting and availability of project documentation after the project implementation has been finished.

Aid instruments

European Development Fund (EDF) is the Aid instruments of EU; currently it is used from 11th EDF 2016--2020. In European Union, all humanitarian and development projects, the payment are performed from this fund. This EDF programming and processing every five year allocation through the preparation of Country Support Program (CSP) with National Indicative Program (NIP) by joint NAO and DEU exercise based on the country's development strategy and EU response strategy .Lastly the program is approved by officials signing required Government and European Commissions (Perric,2011:1,www.EU).

Co-financing

In most EU projects, partners are required to invest their own resources (in the Terminology usually called co-financing), as the EU normally finances only a portion (funding) of the total funds needed to deliver a project. What is more, the amount of EU financing for a project can never be increased, even when sound reasons for justifying an increase in project costs exist. This makes it vital to ensure that all partners are willing and able to invest their own resources. In this respect, estimating the amount of work required is a fundamental task in any project planning, and in EU project planning this is even more difficult to do, as EU projects are more complex and full of uncertainties (for example, unknown partners, indeterminate beginning of a project, international environment). Whether a project will be financed, and to what degree, depends on the work estimation. If the estimation of work required for an EU project is unrealistically high, the proposal will be rejected, and if it is too low, project financing will be insufficient. In practice, partners must first determine the level of investment they are willing to allocate to a project as input in the estimation process. Secondly, an initial estimation is made using a bottom-up approach, and then, providing the estimation exceeds the means of individual partners, project activities are revised; some are reduced, others, removed. Certain project objectives may also be revised, and the project scope scaled down. Then the second round of estimation begins using the bottom-up approach, and this cycle is repeated as many times as necessary.

Eligibility

When estimating the work required and costs in the project proposal phase, the difference between eligible and non-eligible costs. Reimbursement to partners is based on eligible direct and indirect costs and is carried out as periodic payments (pre-financing, interim payment, and final payment) to provide the EU with greater financial security in the consortium and project execution. All payments are considered to be of EU ownership until the time the final report has been accepted and approved.

a) Direct costs are those eligible costs that are directly required for project execution and which the project partners have presented as such, in accordance with accounting principles, common practice and internal rules. In EU projects, the eligible categories of direct costs mostly involve human resource costs, staff travel costs, equipment costs, printing and publishing, the costs of consumables and supplies provided they are identifiable and assigned to the project, subcontracting and other costs.

b) Indirect costs are eligible costs, which a beneficiary cannot recognize as being incurred directly within a project but which can be linked to a project and which a beneficiary can justify through his accounting system. Indirect costs represent a fair distribution of an organization's overhead costs. In no case may the same cost be accounted twice, once as a direct cost and then again as an indirect cost. Activities implemented as foreseen, otherwise it should be ineligible. The EU will not finance *ineligible project costs*, such as any indirect tax including VAT and customs duties, interest owed, exchange losses, excessive or reckless expenditure, etc.

Modalities of EU's aid Delivery

1. Project

- **Contribution Agreement:** for one project, some amount of resources contributed from the Government, EU funds and other donors.
- **Program Estimate:** A project is mostly having a yearly budget program that is maximum of 18 months and it should be accomplished in one year and renewed annually if the project /programmed have continuity.
- **Contract Agreement:** have different type of contract modality of EU
 - ✓ **Works Contract;** is a type of contract it takes for long period of project like construction of Road, House, e.g. AA--Jimma Road Rehabilitation, Railway Rehabilitation, etc.
 - ✓ **Supply Contract:** is a type of contract, the payment is done for procurement of materials necessary to projects from abroad and local country

- ✓ **Service Contract:** it is a type of contract payment is done for feasibility studies or when the project required a professional assistance like (TA) Technical Assistance or payments for visibility studies for projects or programs.
- ✓ **Grant Contract:** is a type of project contract which is not payable but given in the form of grant for a development project purpose.

2. Sector Budget Support: is development assistance that targets a specific sector or agency like, Road Sectors, Health Sectors, and Water Sectors etc.

3. Direct Budget Support: is mostly an external development partner to support the Government budget but discontinued after 2005 and lastly substitute by Protection of Basic Service program/project (PBS) (EC 2004).

All of the above project contract agreement is signed according to EU guideline with contracting authority. When a development project is executed each contract type and tender procedures have their own *checklists* to perform the project activities, (PRAG 2016).

2.8.2 The EU Project Cycle Management (PCM)

The European Union (EU) project management cycle has five phases: According to the European Commission Aid Delivery Methods Project Cycle Management Guidelines (EC, 2004:16), the cycle of operations for managing the EC's external assistance projects has five phases: Programming, Identification, and Formulation, Implementation and Evaluation and audits.

2.9 Nature of Public Sector

Public sector defined as: that portion of an economic system that is controlled by national, state or provincial and local governments. It is usually composed of organization that are owned and operated by the government exist to provide services for its citizens and do not seek to generate profit. This includes federal, provincial, state or

municipal governments, depending on where you live, (Investor Words no date, Business Dictionary no dates)

Funding for public services are usually raised through a variety of methods, including taxes, fees, and through financial transfers from other levels of governments (e.g. from a federal to a provincial or state governments). Different governments from around the world may employ their own unique method of funding for public services.

In Ethiopian context, public sector (Budget institution) is a sector whose General government annual Budget is allocated to Federal ministries i.e. Ministry of Agriculture, Ministry of Industry, Ministry of Education etc. and Non-Budgeted public sector are mostly state owned Enterprise administered by its own resources (income) like commercial Banks, Insurances, Ethiopian Railway Corporation, Ethiopian Sugar Corporation, Ethiopian Commodity Exchange (ECX) etc.

2.9.1 Importance of Ethiopian public Sector

After May 1991, one of the basic measures undertaken by Transitional Government of Ethiopia (TGE) was the replacement of centralized system of economy by market-oriented and decentralized economic management in Nov.1991, (TGE 1991).

Within the context of the development strategy the government initiated a five year development program which is in the process of implementation though various development projects. For this the project approach had been prefer for integrated project operation in the existing economic system to implement at public sector. Implementing sector are mostly sector ministries, agencies or authorities who are responsible for the implementation of a particular development project /program take the lead in undertaking any monitoring activity at sectorial level, (MEDaC, 1996).

The public sector has played and still playing a dominant role in the implementation of development plans mainly through the design and execution of development projects as well as the overall development process of the country. Various plan and documents show that a number of public bodies in Ethiopia have been involved in planning and

implementing of a development project in their mandates areas. These public bodies include ministries, authorities, agencies and regional bureau of various sectors. As a result, financial resource available both from foreign and domestic sources, has been channel in the form of public investment through development projects.

Over the five GTP I implementation period, Donors are responding in support of government's priority areas, from EFY 2003 - EFY 2007, total US\$ 14.1billion external aid was disbursed to implement in *18 sectors*, (MoFED, 2016:12). This shows that financial resources mobilized from external source had a major share and the country highly dependent on external sources to finance its public investment, and those amounts of disbursements flow from external donors is mostly implemented by sectorial ministries. (MoFED, 2015: 22, MoFED 2016:12).

2.9.2 Characteristics of Ethiopian Public Sector

According to DPSA (1990:13-14) Project ideas are generally born at two levels. At *macro* level from government policies (national policies, strategies and priorities, national, sectoral, sub-sectoral or regional plan and strategies, general baseline surveys, etc.) and at *micro* level from multi-lateral or bi-lateral development agencies and as a result of regional or international agreements in which the country participates.

Public sector could be categorized into three groups *in terms of source of finance*. These are (1) full of project costs have been financed from treasury (Government Budget) (2) Project costs that have been financed entirely from external source (Development Partner) and (3) Counterpart fund: project costs that have been financed from external source with supplementary resources from the treasury (Government Budget).

In terms of objectives they could be divided into (1) Demand driven (reflecting the governments or people's demand in a given geographic area; that is projects designed to solve deep rooted and common problems of people in specific area) (2) Donor driven (reflecting donor's interest with respect to sector preference specific geographic location within the country) and (3) Politically biased (reflecting political interest leaving the economic feasibility criteria aside).

In terms of organizational structure or organizational set-up, the public sector development projects in Ethiopia usually placed under

1. Functional Organization Structure: under this project organization the alternatives for co-coordinating the implementation of development project. Most of Ethiopian public sector is classified under this to implement a development project. These includes the adaption of an existing organizations to implement the project in addition to its other activities (functional organization) which means project manger's positions filled by appointment from the functional organization and the project staff are either mobilized from various public bodies or employed by contract on competitive basis. According to (Chandra, 1995& Richman 2002) the functional form of organization advantageous to an efficient utilization use of resources but is not suitable for an effective realization of project objectives.

2. Projectized Organization Structure: which has an autonomous division of project manager is responsible for planning controlling and reporting of all projects and project is centralized in a separate division of the company (Richman, 2002:14). It is suitable for an effective realization of project objectives but is not advantageous to an efficient use of resources. Good factors such as good working conditions, relatively attractive salary, good work relationships, etc. and motivational factors such as recognition of good work, challenging job, authority to make decision, etc. are better realized under projectised organization than functional organization of Ethiopian public sector better supervision and follow-up of the implementation of development projects have also been carried out under this form of project organization ,and submission of progress report to the strategic level management is relatively better than that of the functional project organization. The author has witnessed that, the conditional that have been set out by the donors (multilateral or the bilateral) with respect to project control have to be accomplished as planned on the part of the Government to get the fund disbursed on time. Thus, completion of projects with extra time and unnecessary cost overrun are relatively less in such projects. Such a project sometimes have fall under this type establishing by project co-coordinators PMU (Project Management Unit) or PIU(Project implementation Unit).

3. Matrix Organization Structure: this form of organization which takes the characteristics of both functional and projectized organizations. It is two achieve a twin's objectives of efficient use of resources and effective realization of project objectives at the cost of greater organizational complexity.

In terms of Institutional Capacity and Capability, the outcome of development projects depends on the capacity and the capability of the institutions responsible for them. Institutional capacity, here, refer among other things, to the organizational set-up, availability of physical and financial resources, staff establishment, management style (project management ability) and institutional policy environment. Institutional capacity ,on the other hand ,designates the performance (efficiency & effectiveness) of the institution, the potential of individuals (skill and experience) within the institutional environment, leaderships ,motivational factors (e.g. training staff development).In short, the term, capacity is pre-established and full-fledged working environment, while capability is the power to perform donating by utilizing the existing capacity within the organization.

In terms of Project Management, it has been pointed out earlier that the organizational arrangements for the implementation of public sector development projects could take two of the three forms of projectized organizations (functional and projectized). Assuming that all other factors are kept constant, success or failure of development projects depends on the capacity of project managers and the style of management they practice.

The style of management that functional organizations (where most development project with relatively small in size have been placed for implementation) of the Ethiopian public sector follow to accomplish project activities, appears to be traditional. Even in projectized organizations were very few large sized development project have been placed for implementation ,it shows the spirit of classical style of management .This is because the positions for the project management have usually been filled by

appointment from functional organizations in conformity with traditional management thinking.

From the above forms of project organizations, that it is project managers' ability and the style of management within the organization that determine partly the successful implementation of development projects.

In terms of Project Control, the project control system such as project monitoring, controlling and evaluating are not well developed in Ethiopian Public sector .Lack of adequate monitoring and evaluation mechanism is found to be among outstanding problems in project implementation ,though this mechanisms is mostly made to appear in the agreed project documents, (Gashaw et al.1993:6) this is because the role of monitoring and evaluation is not well understand both by project managers and higher authorities in Ethiopian public sector. Monitoring and evaluations usually considered as a waste of time and nuisance or even a threat rather than a tool for improving project performances (Wondwosen, 1991:64) but nowadays, some donors have a rules and procedure for their fund given, but due to different problems it does not apply correctly like, lack of experience, unmatched system of government rules with donors rules due to appointment of the project manager temporarily ,and due to the functional assignment which means the routine work of functional assignments to be busy and because of some other reasons.

2.10 Challenges of Donor Financed Development Project of EU

According to (PM4DEV, 2014) development project operations have a challenging environment, where uncertainties about the future increase the risk and development projects are implemented in some remote and difficult location in the world.

In Ethiopia much amount of funds getting from development partners were goes through public sectors to implement different projects/programmes.EU is one of the donors to assist Ethiopia for different programs /projects to alleviate poverty. This fund is implemented by sector ministries. During implementing this development project, most

projects were unmatched the requirements of objectives, and show poor performance at the middle or at the end of the project due to different problems. So, some of the challenges of development project in Ethiopia public sectors are: (Implementation report from different projects, ROM Report, 2013, AIDE memories 2013, Recovery Order of finished projects).

lines of authority and responsibility to structural organizations, inappropriate project manager (with respect to knowledge competence, influence, and authority, Long lag time on bid preparation approval and evaluation (on side of Donors agencies), Delays on procurement of TA, Low recognition of project design by local staff, Lack of experience for donors rules for disbursements and other, Delaines caused by bureaucratic administrative system (approval ,procurement, release of funds, Underutilization of funds (unjustified advance) do not returned on time to donors account, Lack of computerized financial management and accounting system hinders timely disbursement & settlement of funds as well as timely auditing by external auditors, Low scale salary for project staff, unmotivated project staff (Civil Servant), Shortage of vehicles for field trip ,low per diem rate, lack of strong local ownership of the project ,Poor leadership style, culture & bureaucracy in the org. and so on.

2.11 Utilization of Donor Funds

Utilization of donor funds had been a challenge to both the donor community as well as the agencies that are responsible for effective utilization of the same. Therefore, there is need for institutions that are response of the management of these funds to come up with the right framework and procedures in order to ensure funds given are utilized as expected and that funds serve the purpose (Fowler, 1995).With an effective framework and policies governing utilization of donor funds nothing much will be expected in form of results .All relevant organization must work in harmony if the expected outcome are to be achieved .It is clear that there is need for coordination and collaboration among

various stakeholders to ensure that funds received are use of efficiently and effectively, (Edwards & Hulme,1995).

However, the EU financed project in Ethiopian public sector could not fulfil as it is mentioned on the above sentence. Thus, the above challenges of a development project are the major cause for under performance of development projects of European Union and finally it brings underutilization of donor funds implies unsuccessful of project aims. Generally, the researcher has been witnessed it seems that there exist long standing problems to plan and successfully implement of EU development projects in Ethiopian public sector at federal level and also regional level.

2.12 Empirical Literature Review

In addressing this research, it has been gone through various reading in finding empirical evidence in search of the Challenges of Donor Financed Development Projects was reviewed. The empirical evidence available was done from global perspectives which narrow down to regional and local (Ethiopia).

2.12.1 Empirical Studies in the World

A) Globally it was studied by (Falgair & Golini 2013), they studied about the methods and tools among Project manager of Donor financed development projects and its impact on the performance of the project. The methodologies used were survey of 500 project managers of international development projects. In their finding reveals that the methodology used to manage a project is a major factor or has a significant impact on project “success”. Finally they concluded that, because of donor financed development projects have peculiar characters and have specific peculiarities, cannot have similar methodology.

B) (Sayontan, S. 2011, PM4DEV, V-3 &V-4: Yong 2001,) in relation to this topic ,they were studied the challenges of international or donor financed development project have highly influenced by external and internal factor of risk, because in their finding the development project environment is more complex ,remote area than domestic project

and they mentioned, some of the challenges like: lack of managerial and technical capability ,poor infrastructure, lack of ownership ,no measure to evaluate quality and poor risk management strategy. Finally they suggest that to accomplish a development project successfully must take into account properly the inherent problem associated with IDP and can be minimizing the above challenges.

2.12.2 Empirical Evidence in Africa

According to Ibeto & Justine (2007), Nigeria, Kenya: in their studies, only local government project about project monitoring & evaluation not yet correspondingly suggest about donor financed development projects but,(Ocheni, Atakpa, Nwankw 2013) studied about project cycle, they were mentioned it weather local government project or donor financed development project must pass through a complete project cycle. Their findings of challenges were, wrong sit location, misuse of funds, a frequent change in political leadership, inflation, state government interference, lack of funds & ecological constraints etc. Finally they suggest that, without accomplishing a project cycle, any project cannot be successful, otherwise a development plan would remain be a wishes and developing country would remain stagnant.

2.12.3 Empirical Evidence in Ethiopia

Temesgen (2000), tried to study, about managing the project cycle in Ethiopian public sector at federal level on a development project. In his finding identifies such problems incurred during the accomplishment of project cycle; like technical, Institutional/management, resource and policy related problems. He concluded that the results of the problems may bring a project failure.

2.13 Knowledge gap

Even though match has been written in research article published in *traditional projects*, very little has been written about *international developmentprojects* and aid sectors. Several authors suggested the need for additional research (Yoker,2004) and for this the need for a deeper analysis is witnessed by the empirical evidence that show international

development projects or donor financed development projects often lack of efficiency & effectiveness (Iks, 2012: Lover grove et. al., 2011).

(Sayontan 2011, PM4DEV ,V3 - V4 2014) they were mention some of the challenges for donor financed development projects, but for further research is needed to overcome this gap ,suggest to for PMD Pro and PM4DEV somehow they have a new solutions to overcome this gap.

Thus Challenges of Donor financed development Project in the Ethiopian public sector of EU funded project has not been studied in Ethiopian .So the researcher has seen this knowledge gap and proposes to conduct this research.

The purpose of this study is tried to explore the *challenges* of EU funded development project implemented in Ethiopian sector ministries at federal level: it may help to stakeholders to take a corrective measures for future and to exist better utilization of external fund effectively and efficiently getting from international donors and finally to meet the requirements of a development plans of local governments and final beneficiaries and helps to contributes Project Management Body of Knowledge's .

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter is concerned with the philosophy or the general principles of research methodology which guides the research to be systematic and solve the problem scientifically and provides a comprehensive description of the research method and techniques that are applied in the entire study, (Dawson 2003). It includes, research design, populations, data sources, data collection procedures, and methods of data analysis.

3.2 Research Design

Research design constitutes the blue print for the collection; measurement and analysis of data and it indicate what type of research undertakings. It is very crucial for any research because it is a serious of guide parts to keep one going in the right direction. It helps to the research having full structured and outlined also deals with research purposes issues, (Dawson 2003).

Recognition of the differences among the kinds of research is important because the kind of research selected will determine the conduct of research. Research designs classified the research based on different ways (systems) from among, research is classified based on the general objective of the research types are: Exploratory research design, Descriptive research design and Causal research design, (Molla & Teshome 2007:16).

Descriptive research design is to answer for the questions “Who, What, How and When” of an event and the one that needs to have a clear statement of the problem and specific research objectives. When conducting descriptive research it is a conclusive research in the sense that, produces finding that explains events, concepts, objects so on. Generally it leads to management action rather than additional research and it gives a brief description of statistical unit under investigation. So, that is why the researcher chosen

and applied this descriptive research design in order to answer the research question and identified the challenges for the EU financed development project in Ethiopia public sector at federal level, (Molla & Teshome 2017:24-25).

The research approach in this study chosen based on the stated research questions and specific objectives to conduct the research. There are three approaches available for researchers in their research methodology, namely *quantitative, qualitative that is mixed* methods of research approaches (Creswell, 2003). According khatari (2004) in the quantitative approaches, data is collected through a systematic empirical study and the result can be quantified with the help of statistics and mathematics. In quantitative research, it is possible to compare and study several determinants and analyzing and testing them empirically will prove if there are relationships to be found in order to draw conclusions on the research.

Qualitative approaches have an emphasis on understanding interpreting and observing the data in a natural setting and with a sort of insider's view, (Khatari, 2004). Quantitative approach is more objective than qualitative approach which is more of the subjective method.

The mixed approach inquires draw liberally from both quantitative and qualitative assumptions. That means it is the combination of quantitative and qualitative research approaches.

According to Creswell (2003) the possible criteria to be considered for selecting an approach is the research problem .In view of that, quantitative approach is best if the problem is identifying factors that influence and outcome, or understanding the best predictors of outcomes. The approach is also best to test a theory or explanations. In addition to this, a qualitative approach is advisable if concept or phenomenon needs to be understood. Thus the researcher used the mixed approach method to conduct this study.

Therefore, to study the Challenges of Donor Financed Development Project, descriptive research design and mixed research approach are more appropriate to identify the problems in this study.

3.3 Population of the Study

3.3.1 Target population

The target populations of the study are, project managers and project team members working in MoFEC-National Authorizing Office (NAO), public sector federal level project staff and the European Union delegation to Ethiopia. Most of the EU developments projects in Ethiopia are passing through governments and implemented at line ministries or public sector. For each projects 3 focal persons are nominated by higher level management of public sector to run the EU development projects those are Implementing Administrator (IA), Implementing Accounting Officer (IAO) and Project Accountant. Nine (9) line ministries (public sectors) have been currently implemented the EU development funds, 16 projects has been an ongoing and finalized during 2012 to 2016 so respondents from public sectors are 48. From NAO 11 project staff and 1 project manager from EUD office were among the respondents. Taking into consideration all EU development project rules and procedures have the same, except the size and the amount of project that has been implemented to public sector.

Since the target population is small in number, the data collection cost for these respondents is very low and make more reliable on the data; hence the researcher chosen the census method for data collection than sampling technique. The total population size of the research was 60.

3.4 Data Sources

In this study the researcher used primary data through questionnaires and interview to draw out responses regarding challenges of EU financed development project at public sector. The researcher distributed questionnaire to the total population of project staff

who are working in European Union Delegation office, NAO and public sector and also conducting a face to face interview with all targeted population of the study.

3.5 Procedures of Data Collection

In case of data collection method, it is not necessary to use only one research method, a combination method is preferable to overcome the weakness inherent in all methods and also the study chosen or depended on budget and time constraints.

For this research the primary data was collected through structured interview and semi – structured questionnaires from respondents. For interview, a face to face interview were conducted with project member staff of EU delegation to Ethiopia, MoFEC -NAO, and public sector (federal level). During interview, the interviewee had been answered based on structured interview ,regarding challenges of a development project EU at public sector and suggested recommendations were discussed.

The design of primary data collection was based on the combination of literature analysis and qualitative research carried out before the questionnaires. To collect appropriate data and answer the research questions, a total of 34 semi-structured questions were designed and delivered to 60 respondents personally and through e-mail together with a covering letter explaining the purpose of the study ,instruction how to fill and assuring them anonymity. The tools that evaluated the problems the researcher used a 5 point Likert Scale ranging from (1) “No problem to (5) Very Severe problem”.

3.6 Method of Data Analysis

Data was collected and analyzed through qualitative and quantitative research approach. In order to analyze the primary data generated through *questionnaires*, the researcher applied a quantitative research approach using statistical package for social Science (SPSS) Version 20 and analyzed frequency, percentage, standard deviations and mean variations. Finally, the result of data was summarized and presented in the form of table. Primary data generated through *interview* through face to face was collected, summarize and analyzed by researcher.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETAION

4.1 Introduction

The analysis is done in relation to the main source of data used for this study is primary data based on the interview and questionnaires made with project team members of the implementing agencies, project manager of the donor organizations, MoFEC-NAO project staff about challenges of donor financed development project in Ethiopian public sector of EU cooperation, the following results were found. The data collected was analyzed by descriptive statistics analysis made use of mean, percentage, standard deviation, frequency distribution presented in tables.

4.2 Response Rate

Out of 60 questioners distributed to nine (9) federal levels public ministries of project staff, MoFEC-NAO project staff, and project manager of EU delegation office, 60 (100%) questionnaire were filled out and returned. This shows an excellent response rate from respondents. So the analysis was based on this 60 respondent's response.

4.3 Descriptive Statistics

In this study descriptive statistics analysis were analyzed the data. The descriptive statistics utilized in this research used to analyze the demographic data and project profile data included frequency, percentage, Mean and Standard Deviations.

The data collected from the returned questionnaires were entered into SPSS (Statistical Package for Social Science) software version 20.

4.4 Demographic Characteristics of Respondents'

Table 4.1 represents the basic socio-demographic characteristics of respondents from nine (9) federal levels public sector project staff, MoFEC-NAO project staff, and project manager of EU delegation office.

Table 4.1 Profile of the Respondents

Items	Options	Frequency	Percentage
Gender	Male	44	73
	Female	16	27
	Total	60	100
Age Group	25-35	9	15
	36-46	19	31.66
	47-57	25	41.67
	Above 57	7	11.67
	Total	60	100
Marital Status	Married	48	80
	Unmarried	10	16.67
	Divorced	--	--
	Widowed	2	3.33
	Total	60	100.00

Source: Own survey result (2016)

The first demographic variable that is sex division of the respondents, majority of the respondents were males which were 44(73%) representing a bigger part of the respondents. The low representation had shown female which 16 were (27%). This indicated high proportion of male employees within the surveyed public sector institution.

With respect to age of employee 15% respondents were between 25- 35, years age, 31.66 % were aged 36 to 46 which is vibrant workforce, 41.67% aged 47 to 57 which is indicated most of project staff are matured running the project and 11.67% aged above 60. As the data showed, most (80%) of respondents are married, 16.67% and 3.33% are unmarried and widowed respectively.

4.5 Project and Respondents' Profile

Table 4.2 Project and respondents' profile

Items	Options	Frequency	Percentage
Project Duration	Less than 2 years	6	10
	2-5 years	48	80
	More than 5 years	6	10
	Total	60	100.00
Project Budget	Less than 5 million ETB	3	5
	5-20 million ETB	8	13.33
	20-50 million ETB	12	20
	Greater than 50 million ETB	37	61.67
	Total	60	100.00
Organization Type/category	MoFEC. -- NAO	11	18.33
	Public Sector	48	80
	EU delegation to Ethiopia	1	1.67
	Total	60	100.0
Experience with EU Project	Less than 2 years	10	16.67
	2-5 years	38	63.33
	More than 5 years	12	20
	Total	60	100.0
Qualification	Project Management	--	--
	Accounting	5	8.33
	Agricultural Economies	7	11.67
	Economies	23	38.33
	others	25	41.67
	Total	60	100.0
Level of Education	College Diploma or equivalent	10	16.67
	BA/BSC	17	28.33
	MA/MSC	32	53.33
	PhD and above	1	1.67
	Total	60	100.0

Source: Own survey result (2016)

The respondents were asked their level of education and work experience with the management of EU projects and the results of the survey reveals that, more than 50% of the respondents have obtained post graduate degree, and 1.67% is PhD. 28.33% and 16.67% have first degree and diploma respectively. About 60% have between 2-5 years of experience. This rate shows that most of respondents have not stayed longer time because of temporary nature of projects and complex nature of donor's rules and

regulation, and bureaucratic nature of government implementing sectors as well as existence of high turnover of project contract staff due to low scale salary. Few respondents have less than 2 years and greater than 5 years of experience which is 16.67% and 20% respectively.

Regarding Project Duration and Project Budget about 80% of the projects have 2-5 years duration and about 60% with more than 50, million Birr project budget. Again according to the contexts established by the researcher most of the projects are big.

On the other hand the respondent's professional background indicated that 38.33% were economists 11.67% and 8.33% are agricultural economists and accounting respectively. While the rest of 42% have various fields of specializations, such as animal science, geography, sociology, public health. Almost none of them have a project management qualification because project management field of study in Ethiopia were not exist, but nowadays, this fields of studies have been studied and give different private and government universities. Even if hardly exist special qualification, does not want to higher government projects, rather than NGO, because it is getting high salary payment. Lack of this qualified experienced project management employee, the government public sector projects shows low performance thus the result is underutilization of donor funds. Most of the development project in public sector managing by traditional way not having deeply knowledge of project management.

Analysis of the data shows that, most (80%) of the respondents are working with public sector at federal level. Regarding the project implementing of public sector most of the respondents work with Ministry of Agriculture, Ministry of Road, Ministry of Industry, because the percent shows that *most* of donor financed projects or EU funds are implemented according to government priorities of GTP of the countries classification of sector ministers, and the remaining portion is shared by the MOFEC-NAO and EU delegation to Ethiopia (18.33% and 1.67% respectively).

4.6 Challenges of Donor Financed Development Project

4.6.1 Descriptive Analysis of Challenges by Frequency and Percentage

Table 4.3 Project Management Challenges

Suggested Challenges for a Development Project of EU Implemented in public sector	Very severe Problem 5	Major problem 4	Moderate problem 3	Minor problem 2	No problem 1
<i>Project Management</i>					
Inappropriate project manager (coordinator) (with respect to knowledge, competence, influence, authority)	0(0%)	12(20%)	36(60%)	12(20%)	0(0%)
Lack of Coordination between NAO ,IA and EUD	0(0%)	48(80%)	6(10%)	6(10%)	0(0%)
Availability of Funds	0(0%)	0(0%)	0(0%)	6(10%)	54(90%)
Delays caused by bureaucratic administrative system (approval, procurement & release of funds)	6(10%)	24(40%)	18(30%)	12(20%)	0(0%)
Poor Leadership style ,Culture & Bureaucracy in your organization	6(10%)	30(50%)	12(20%)	12(20%)	0(0%)
The country's has no clear development strategy and program	0(0%)	0(0%)	6(10%)	6(10%)	48(80%)

Source: Own survey result (2016)

As depicted in **table 4.3**, the majority of respondents agreed that there were inappropriate project managers (coordinator) who worked for a development project in Ethiopian public sector, as they have had a moderate problem. They should have had a special qualification of project management to manage or implement any project successfully to meet project requirements.

Project management body of knowledge is a driver of project; without having a specialization of project management field of study, project activities can't meet project requirements, (PMI 2013, Richman 2002). As a result of aforementioned problem, most of EU financing development projects has shown low performance. Experience has revealed that most project managers (higher officials such as department heads) in the

Ethiopian public sector are appointed by the concerned public bodies from functional organizations. However, one of the problems of project managers identified in this study indicated that they might not have management skills and experiences to efficiently manage or coordinate projects. Therefore, the appropriateness of a manager partially determines the success or failure of a project. According to Hekala (2012) the two principal causes of project failure are 1) poor project planning and 2) inadequately trained project manager.

But, in this study nobody considered it as a severe problem. The possibility of traditional way project manager may run the project activities.

Countries have no a clear development strategy and availability of funds not affected the development project of EU because donors are ready to release funds when rules and procedures are fulfilled. In fact, few respondents said that there is a minor problem regarding the availability or release of funds.

As discussed in the literature review, in the government sector, ministers employed poor leadership style of management and bureaucratic administrative system. EU development projects often involve stakeholders who have different procedures, rules and policies. This leads to excess bureaucratic work, complex reporting system and consequently delays in project implementation that shows 50% of respondents mentioned as a major problem. Experience has shown that many projects, although generally achieving their goals, have been considered as unsuccessful due to formal violations and difficulties in the administration work. Due to this, some respondents believed that there has been no approval of procurements and release of fund documents on time; this is a major problem that hinders the implementation of donors' development projects. 30% and 40% of respondents identified this as a moderate and major problem respectively.

Although some respondents held this view, the majority of respondents (80%) were of the opinion that there was no problem regarding country's clear development strategy and program.

Table 4.4 Financial Management Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	Very severe Problem 5	Major problem 4	Moderate problem 3	Minor problem 2	No problem 1
Financial Management					
All assets owned by project fund are not recorded in an asset register	0(0%)	0(0%)	18(30%)	30(50%)	12(20%)
Lack of computerized financial management and accounting system this hinders disbursements and settlements of funds as well as timely auditing by external auditors.	0(0%)	0(0%)	30(50%)	24(40%)	6(10%)
No participation of project accountant during project appraisal	0(0%)	6(10%)	18(30%)	24(40%)	12(20%)
Absence of division of work in financial staffs	0(0%)	24(40%)	24(40%)	6(10%)	6(10%)
Unclear lines of authority and responsibility due to structural of the organization	0(0%)	42(70%)	12(20%)	0(0%)	6(10%)

Source: Own survey result (2016)

As one can see from **table 4.4** the majority of respondents believed that failing to record assets owned by project fund in asset register is a minor problem to affect a development projects. This shows the violation of Generally Accepted Accounting Principle (GAAP).

The rule says all assets procures in the organization must be recoded in asset register and inventoried yearly; but in the case of procured asset by donor funds, the government public sector does not recognize it as a property until the project is end. However, some portable assets may be stolen, if asset procures by project fund are not recorded.

Whereas some respondents said as there would be no serious problem that cause effect on development projects, because after winding up of a project, all assets remain with a public sector.

Most respondents believed that non-existence of a computerized financial management system in public sector is insignificant, and it may moderate and has a minor effect on

donor project. Which means lack of a double entry accounting system or recorded and accounts maintained under GAAP means a higher risk of errors occurring in the expenditure recorded and an increased possibility of expenditure being duplicated or omitted an error and not suitable for getting financial information to know about the progress of the project and difficult for Audit purposes whereas few respondents said adopting the existing financial management system is not a problem for development projects.

During project execution, the existence of inappropriate expenditures shows that the items do not include the category of project financial proposals or activities; this shows the nonparticipation of a project accountant during project appraisal stage 30% and 40% of the respondents considered this as a moderate and minor problem respectively.

Absence of division of work in financial staff which has moderate and major effect on a development project of EU and that all financial staffs have similar duties and at some levels. Without head or without special filed of finance personnel in the area on financial matters to check against for project payment, checking against the errors approved by project experts (coordinators) which may bring lack of clear report.

Nobody could say any problem and very severe problem and this shows that it might have major, moderate and minor impact on donor's financial utilization and lag behind the settlement of expenditure reports timely.

70% or the majority of respondents believed that unclear line of authority and responsibility due to the structure of the public sector is a major challenge for a development project. Here, as discussed in Literature, it should be noted that most of the Ethiopian public sector or implementing agency is classified as functional form of organization structure which has both duties, that is, project work and routine work, a project manager is mobilized from various public bodies or employed on contract basis. This implies that the environment is not suitable for the project manager to achieve effective realization of project objectives of a development project.

Table 4.5 Project design and planning Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	Very severe Problem 5	Major problem 4	Moderate problem 3	Minor problem 2	No problem 1
<i>Project design and Planning</i>					
Lack of effective consultation during planning	0(0%)	42(70%)	18(30%)	0(0%)	0(0%)
Lack of detailed realistic and current project plan (schedule, budget, procurement) or (poor project design)	0(0%)	42(70%)	12(20%)	6(10%)	0(0%)
Inappropriate stake holders involvement on the planning stage	0(0%)	36(60%)	24(40%)	0(0%)	0(0%)

Source: Own survey result (2016)

As revealed in **table 4.5** lack of effective consultation, poor project design and inappropriate stockholders during planning stage with limited capacity of planners have a major impact on EU development project at the public sector. Not all stakeholders of EU development projects discussed the project during planning stage. Mostly the project is designed by a higher body or a government that is inappropriate stakeholders specifically such an approach saves time and money but the result is poor project design and unrealistic assumption (Aid Memory, 2013). Finally the stakeholders cannot be satisfied by project because lack of effective communication at this phase. Other respondents are of the opinion that the above challenge is a moderate or a minor problem.

Table 4.6 Capacity and Capability Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	Very severe Problem 5	Major problem 4	Moderate problem 3	Minor problem 2	No problem 1
<i>Capacity and Capability</i>					
Lack of competence of project Planner	0(0%)	36(60%)	24(40%)	0(0%)	0(0%)
Lack of Local Capacity	48(80%)	6(10%)	6(10%)	0(0%)	0(0%)
Lack of local capacity to manage project implementation	48(80%)	6(10%)	6(10%)	0(0%)	0(0%)
Existence of limited professional in some area locally	0(0%)	36(60%)	18(30%)	6(10%)	0(0%)
Limited training and experience for donor's rules and producers for disbursements	0(0%)	18(30%)	30(50%)	12(20%)	0(0%)

Source: Own survey result (2016)

The result from the **table 4.6** shows our country Ethiopia as a developing country has no sufficient capacity to implement a development project, because it has no good infrastructure, material and human resources. Hence international development projects are subject to inherently high risk and they have many factors that are beyond the control of the project implementer (Hekala, 2012). The majority of respondents believed that lack of adequate local capacity in local country to manage project implementation is a very severe problem, as it will have negative impacts on the fulfilment of the overall development project objectives in the public sector.

Furthermore, lack of knowledge of a project planner and the availability of limited professionals in some areas, will have not a good impacts on the implementation of development projects in the public sector because, some projects are very important to the beneficiary, but due to existence of limited professional personnel locally, it may cancel the project or programmes .There respondents indicated that it will have a major or a moderate impact on the project.

Lack of EDF implementation experience and lack of support from NAO or external TA and having a limited capacity of public sector as 30% of respondents' states as a major

problem of projects that have-not been finished in good performance and project may failure at the beginning of the project , (ROM, 2013).

Even some Workstop have been prepared by NAO and external trainers given training once or twice in year about EDF procures and rules for stakeholders although they were not enough due to long and complex nature of EDF rules and the existence of a frequent turnover of project staff. That is why the majority of respondents (50%) agreed that shortage or limited training and experience moderately affected the performance and disbursement of donor projects and 30% of respondents have agreed as a major problem.20% of respondents considered it as a minor problem.

Table 4.7 Donor’s Rules and Procedures Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	Very severe Problem 5	Major problem 4	Moderate problem 3	Minor problem 2	No problem 1
<i>Donor Rules and Procedures</i>					
Delays on the procurement of TA	0(0%)	18(30%)	30(50%)	12(20%)	0(0%)
Lack of clear policies of donors and governments to sustain projects activities and results	42(70%)	6(10%)	12(20%)	0(0%)	0(0%)
Lack of uniform salary payment on the side of donors for project staff.	0(0%)	30(50%)	18(30%)	12(20%)	0(0%)
Interests of donors not to finance governments priority programs /projects	0(0%)	0(0%)	12(20%)	36(60%)	12(20%)
Lengthy procurement procedures of EDF	0(0%)	48(80%)	12(20%)	0(0%)	0(0%)
Long lag time on bid preparation approval and evaluation (on side of donor agencies)	0(0%)	42(70%)	18(30%)	0(0%)	0(0%)

Source: Own survey result (2016)

As **table 4.7** shows, without technical support, project management has inevitably faced enormous challenges in terms of disbursements of funds, reporting and accounting (Aide Memories 2013). Due to capacity limitation in our country most of the TA’s has

come from abroad. Hence, before preparing a project, it is necessary to look for a specialist project preparation consultant from outside the country.

However, for Different reasons some TA came after project operational phase had elapsed. This implies overloading of a project coordinator team which has an impact on a development project. Therefore most respondents indicated that the above mentioned problems have moderate, major and minor effects on the project.

Most of the respondents 42(70%) said that lack of clear policies of donors and governments to sustain projects activities and results, is a very severe problem. On the other hand, 12(20%) and 6(10%) of the respondents believed that it was a moderate and major problem respectively.

So, most respondents understood that if the policies of the government and donors are not clear towards a specific project, it wouldn't be hard to expect poor performance of the project, because the project performance is measured against the achievements of project owner's strategic objectives as well as the satisfaction of users and key stakeholders need. It has been pointed out in the literature review that project ideas originate from government policies or development partner and as a result of regional or international level agreements.

It should be noted that no respondents stated that lack of clear policies of donors and governments to sustain projects activities is useful. On the other side, some respondents identified interests of donors not to finance government priority programs as a minor problem rather than as a moderate problem.

Regarding lack of uniform salary payment on the side of donors for project staff in public sector, different donors financed same sectors for different project implementation activists. Hence the salary and benefit package for project staff different from donor to donor. This creates conflict of interests among the project contract employees who were employed in the public sector. The majority of respondents agreed that the existence of this difference is the cause of high turnover staff. The one (donor),

who have low scale salary, does not get proper qualified persons for the project. The “EU,” employee who were employed at public sector and NAO, have very low ceiling to the remunerations compared to other donors. For this reason most public sectors or implementing agency couldn’t fulfil the project objectives because without proper qualified persons every project could not run properly. During project design, most implementing sectors raise this payment issues. Some respondents believed that this issue has less or moderate effect.

While 80% of respondents regarded EDF’s lengthy procurement procedures as one of the major problems for the implementation of development projects, 70% of the respondents believed that long lag time procurement procedure, bid preparation approval and evaluation by donor agencies as one of the major obstacles for the stated problem. As mentioned earlier, EU rules and procedures are rigid and complex. Many agencies (at the public sector) mentioned this aspect of the EU development fund. Non-experienced project staff may not successfully implement donor projects on time. Failure to complete the project on time will incur additional inputs (such as labour, cost and time). None of the respondents considered this as a very severe, minor and no problem.

Table 4.8 Challenges related to Project Implementation (Administration)

Suggested Challenges for a Development Project of EU implemented in public sector	Very severe Problem 5	Major problem 4	Moderate problem 3	Minor problem 2	No problem 1
<i>Project Implementation (Administration)</i>					
Lack of strong local ownership of the Project	48(80%)	0(0%)	12(20%)	0(0%)	0(0%)
Unutilized fund don't returned on time to donor's Account	0(0%)	0(0%)	36(60%)	24(40%)	0(0%)
Lack of frank and open discussion from Government side	0(0%)	0(0%)	11(18%)	0(0%)	4981.7
High staff turnover of project staff	42(70%)	12(20%)	6(10%)	0(0%)	0(0%)
Lack of incentive moral and material (unmotivated project staff)	42(70%)	6(10%)	12(20%)	0(0%)	0(0%)
Low salary scale for project staff	36(60%)	12(20%)	12(20%)	0(0%)	0(0%)
Low scale of per diem rate	0(0%)	30(50%)	12(20%)	18(30%)	0(0%)
Lack of implementation report and progress report (M&E), on beside of NAO/IA/Regional office	54(90%)	6(10%)	0(0%)	0(0%)	0(0%)
Shortage of vehicles for field trip	0(0%)	36(60%)	12(20%)	12(20%)	0(0%)

Source: Own survey result (2016)

As shown in the **table 4.8** high percentage of respondents indicated that lack of timely implementation and progress report plus lack of strong local ownership of the project, which accounted for 90% and 80% respectively are critical challenges of any development project in general and EU development project in particular. Monitoring and evaluation report is the key measurement of performance of projects. The performance report should be in place in any works or projects from planning to implement a project as the donors need the project progress report. However project implementing sector mayn't prepare timely implementation and progress report, donors do not release funds on time and sometimes lack of additional source of funds to country.

On the other side, lack of strong local ownership of a project is a very serious challenge to a development project in EU at the public sector. It is clear that the ultimate owners

of the development projects are the local people. Therefore both donors and implementing partners have to ensure from the very beginning that the beneficiaries are part of the project and transfer all products of the project to the beneficiaries at the end of the project. However, practically this was not done. Most of the project staffs are contract workers and, from the government public sector, employees have been assigned temporarily by nomination to manage the project works. After completing the project no one would be responsible, because the contract workers will be released and the accidental project manager or staffs (which are assigned temporarily) will move to their original functional duties. In case, the external auditors come and require information about the project, no one can provide them with such information. Far worse, they may not find the project document itself.

On the other hand, frank and open discussion from government with donors and unutilized fund, which was not returned on time to donor's accounts, was not considered as serious obstacles although some respondents recognize them as minor problems.

Although highly useful and well-designed, the project has been seriously impeded by high staff turnover, lack of moral and material incentives (unmotivated project staff), low scale salary in all IA and NAO of project staff, which represent 70%, 70% and 60% respectively. This has a greater influence in relation to project input and output.

Lack of moral and material incentive means they have not been paid Top-up for project implementers (which are assigned temporarily from public sector permanent staff). Hence, they did not care or give an attention to project work rather their permanent functional duties. which in turn has resulted in a frequent project staff turnover. Due to low scale salary which is not equal to market price, of contract workers, most of implementing sectors hardly find qualified employees to run the project. The salary of project staff is not proportional payment with duties and responsibilities and without realizing the complex project work and temporary nature of project time

The last but not the least are 60% and 50% of respondents agree that lack of shortage of vehicles and low per diem rate are a major problem respectively .Shortage of vehicles are one of the problems of a development project ,due to this monitoring or controlling of the development project at regional level couldn't be done on time and to get a financial and implementation report from regions, had not been timely report to stakeholders .So it has an implication for project performance that cannot know easily a progress of a development projects in EU cooperation,(AIDE memory 2013).

The existence of low rate of per diem has an impact for effective project implementation. Even there is the per diem rate that has been stated in a project financial plan, it was not covering accommodation expense. Due to this, staff reluctant to travel to project site's regions and could not avail the progress report on regional level development project (ROM 2013). It is also difficult to follow up the performance of the development project at the region.Currently, the GOE limits (DSA) daily substance allowance for project fund-based allowance for all government projects division employees and experts of development organization that take part in projects. This rate has less than the previous rate, and it might have poor performance on the donor's project and discourage implementers (Nardos, 2016).

4.6.2 Comparison of Challenges by Mean and Standard Deviations

As shown in the table below, the result is confirmed through computing the *mean* for the overall suggested challenges and *ranked* according to their perceived *severity* to the project. The Respondents all agree that challenges listed in table indeed hinder the success of their project.

Table 4.9 Comparison of Project Management Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	St. Dev.	Mean	Rank of Severity
Inappropriate project manager (with respect to knowledge, competence, influence, authority)	.63779	3.0000	4 th
Lack of Coordination between NAO, IA and EUD	.64572	3.7000	1 st
Availability of Funds	.30253	1.1000	6 th
Delays caused by bureaucratic administrative system (approval, procurement & release of funds)	.92425	3.4000	3 rd
Poor Leadership style ,Culture & Bureaucracy in your organization	.92973	3.5000	2 nd
The country's has no clear development strategy and programmes	.64572	1.3000	5 th

Source: Own survey result (2016)

The findings of the study showed from project management challenges **table 4.9**, the most prevalent one in a development project is, lack of coordination between NAO, IA, and EUD. In general, this problem indicated that the challenge of key stockholders to meet the requirements of intended goals with respect to the development project is confounded. By lack of strong relationship between them as a prescribed manner 1st in rank order of severity and the mean score of 3.7.

Table 4.10 Comparison of Financial Management Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	St. Dev.	Mean	Rank of Severity
All assets owned by project fund are not recorded in an asset register	.70591	2.1000	5 th
Lack of computerized financial management and accounting system hinders timely disbursements and settlements of funds.	.66892	2.4000	3 rd
No participation of project accountant during project appraisal	.90760	2.3000	4 th
Absence of division of work in financial staffs	.90760	3.1000	2 nd
Unclear lines of authority and responsibility due to structural of the organization	.95136	3.6000	1 st

Source: Own survey result (2016)

The findings of the study revealed that from the financial management challenges **table4.10**, the most highly severe problems are unclear lines of authority and responsibility due to structure of the organization of public sector 1st ranked and the

mean value is 3.6. In general, this challenge indicated that to meet the requirements of objectives of the project with respect to the development project shows poor performance and finally it leads to lack of ownerships of a project.

Table 4.11 Comparison of Project Design and planning Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	St. Dev.	Mean	Rank of Severity
Lack of effective consultation during planning	.46212	3.7000	1 st
Lack of detailed realistic and current project plan (schedule, budget, procurement)or (poor project design)	.66892	3.6000	2 nd
Inappropriate stake holders involvement on the planning stage	.49403	3.6000	2 nd

Source: Own survey result (2016)

As shown in the above **table 4.11**, high severity in rank and the mean score of 3.7 implies lack of effective consultation during project planning stage participation of a non-relevant stakeholders and lack of proper discussion during project planning stage have a great impact for a development project at public sector.

Table 4.12 Comparison of Capacity and Capability Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	St. Dev.	Mean	Rank of Severity
Lack of competence of project Planner	.49403	3.6000	3 rd
Lack of Local Capacity	.64572	4.7000	1 st
Lack of local capacity to manage project implementation	.64572	4.7000	1 st
Existence of limited professional in some area locally	.67648	3.5000	4 th
Limited training and experience for donor's rules and producers for disbursements and others.	.70591	3.1000	5 th

Source: Own survey result (2016)

Table 4.12 shows that with the existing problem like limited skilled manpower, resources, materials and leadership style and others exist in public sector it is assured that lack of local capacity and managing project implementation shows 1st in severity to implement a development project of EU in public sector with the mean score of 4.7.

Table 4.13 Comparison of Donor Rules and Procedures Challenges

Suggested Challenges for a Development Project of EU implemented in public sector	St. Dev.	Mean	Rank of Severity
Delays on the procurement of TA	.70591	3.1000	5 th
Lack of clear policies of donors and governments to sustain projects activities and results	.81303	4.5000	1 st
Lack of uniform salary payment on the side of donors for project staff.	.78762	3.3000	4 th
Interests of donors not to finance governments priority programs /projects	.63779	2.0000	6 th
Lengthy procurement procedures of EDF	.40338	3.8000	2 nd
Long lag time on bid preparation approval and evaluation (on side of donor agencies)	.46212	3.7000	3 rd

Source: Own survey result (2016)

As indicated in **table 4.13**, as ranked 1st in severity, unless governments and donors have clear policies to sustain a development project, lack of such policies will have a major influence in relation to the successful realization of projects and it is difficult to implement Projects in public sector.

Table 4.14 Comparison of Project Implementation (Administration) challenges

Suggested Challenges for a Development Project of EU implemented at public sector	St. Dev.	Mean	Rank of Severity
Lack of strong local ownership of the Project	.80675	4.6000	2 nd
Unutilized fund don't returned on time to donor's Account	.49403	2.6000	7 th
Lack of frank and open discussion from Government side	.78041	1.3667	8 th
Lack of incentive moral and material (unmotivated project staff)	.81303	4.5000	4 th
High staff turnover of project staff	.66892	4.6000	2 nd
Low salary scale for project staff	.87914	3.2000	6 th
Lack of implementation report and progress report on NAO/IA/Regional office (Monitoring and Evaluation)	.30253	4.9000	1 st
Shortage of vehicles for field trip	.80675	3.4000	5 th

Source: Own survey result (2016)

As revealed in the **table 4.14** above those ranked first critical challenge with a mean score of 4.9, are lack of timely on progress report and implementation report of a development project in public sector. Which shows the delay caused has a great impact on not release (transfer) additional fund for the next project budget expenditure (from donor side) and it is hinders to take a measure early if there is a problem when managing a development project or is hinders for timely knowing about the performance of the development project in public sector.

4.7 Summary of Interview Questions

The respondent said that they agree that the right person was not assign, due to the frequent staff turnover regarding assigning right person in a project and which they would good enough for the project. In aspect to the donors' rules and procedures complexity and difficulty to understand for non-experienced project staff was taken as problem.

Problems and outstanding issues with respect to government and donor policies was highly important to encourage periodical joint assessment of the existing policies and strategies and amend as appropriate according to majority of the interviewee.

Regarding good relationship with NAO project staff and EU delegation staff it was established good working relationship both with NAO staff and EU delegation, despite the fact that differences were observed in some key areas during programme development and recruitment of local staff with NAO according to informants.

Regarding idea on how efficiently and effectively utilizing a development project the following are Key information were given;

1. Give adequate emphasis in designing of the project with an active involvement of stakeholders
2. put in place appropriate project management structure
3. Sensitization of the project at all levels to ensure ownership

4. Realistic project planning of physical activities and budget with active involvement of stakeholders
5. properly designed post project exit strategy
6. Maintain timely and quality progress report

ACP (Other Africa) country which is properly implementing EU development project

Rwanda's experience was taken by one informant about direct public budget support gave them the opportunity to be more flexible to finance priority investment area.

Finally the researcher's key informants recommend the following to increase the benefit and reduce the challenges of project implementation of EU development project fund

1. Encourage joint project appraisal with actively involvement of stakeholders and negotiate to shorten somewhat the appraisal process for timely kick-start of project implementation
2. Agree to put in place full time project staff to be fully engaged and accountable ,
3. Ensure timely budget disbursement and establish effective financial management and recording
4. Give due emphasis for sensitization project planning and M&E and quality reporting.
5. Implementation modality and procurement systems have to be negotiated and simplified to build mutual trust as good comment from interviewees.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter contains the summary and conclusion of the study based on the findings previously discussed in detail in chapter four. It also provides recommendations based on the study's conclusions. The recommendations could lead to appropriate interventions to improve or recover identified weaknesses and challenges. Also the aim of this chapter is to provide a summary of data findings as a theoretical contribution to project management body of knowledge by some practical considerations about findings applicability. Besides from the findings and the recommendations, the study suggested areas for further research.

5.2 Summary

The study which was conducted on challenges of donor financed development projects in case of European Union Cooperation at public sector of federal level shows low performance of a development project. Due to those challenges, lack of motivation of project staff, low salary scale, low scale of per diem rate, inappropriate project coordinator, lack of local capacity, delay procurement of TA, lack of computerized financial management so and so on have contributed to poor performance of a development projects which leads to failure of projects.

From the study it was discovered that low performance of a development project financed by EU that is implemented at public sector increased year to year during the period 2012 to 2016. In conducting this study the following challenges results:

1. As our country Ethiopia classified as non-efficient, as a result, not getting additional resources from other development partner including EU.
2. Absorbing foreign currency utilization as needed, which means loss of foreign currency that the country initially needed at present.

3. Not getting additional disbursements for ongoing projects that donor takes the unutilized fund which was not previously used; by using off-setting operation reduce from the new volume resources allocated for country,(EUDE 2015).
4. Because of lack of ownership and capacity problem in implementing agency, large amount of secured resources shows as unutilized fund and activities implemented as for seen, otherwise it should be ineligible costs, as a result, huge amount of money reimbursed to donors (EU).Hence, the government obliged to allocate additional budget to cover the *ineligible cost and unutilized fund* for the project which create burden on the government.
5. This situation leads the country not implementing developmental projects that are crucial for the country development endeavor.

These findings that concerns with challenges of donor funded development project performance will help planners and professionals to better plan and implement future projects. Research findings and conclusions can be useful to any ID projects and applicable for any host country or continent. Moreover, these finding will further stimulate new research interests in this complex project management area. In future, this study can be extended to incorporate impression to the host country as they are the ultimate customer of the ID projects.

5.3 Conclusion

The donor financed development projects or International Development Project (IDP) will provide an ongoing assistance to the Government of Ethiopia (GOE) to strengthen the institutional and policy environment, develop human resources and implement strategies that address poverty, social and behavioral barriers to be optimal. Lastly GOE should avoid foreign assistance, by replacing poverty with prosperity and dependency with self-reliance.

Most of the Ethiopian public sector developments projects have been placed under functional department for their implementation, while for large sized projects have been implemented under independent organization. The result of the survey *highlight* a

specific set of *six* major challenges: lack of strong local ownership of projects, unclear lines of authority and responsibility due to structural of the organizations, lack of coordination between NAO, IA and EUD, lack of effective consultation during planning, lack of clear policies of donors and governments to sustain projects activities and results, and lack of local capacity and lack of capacity to manage project implementation. This indicates that, they are found to have contributed for poor performance and failure of projects in the Ethiopian public sector.

Due to long and complex nature of donor rules and procedures and lack of EDF implementation experience and skills of each institution which is limitation of accessing adequate support from NAO or through external TA, the rules have not been correctly applied in implementing sector as well as active stakeholders involvement during project appraisal stage mostly not applicable. Because of the above challenges, huge amount of funds were found unutilized (unjustified),(Debit Note and Recovery Order). These indicate most of Ethiopian public sector projects should unsatisfactory performance.

5.4 Recommendations

Analyzing result obtained for response to questioners and interview gathered from respondents and comparing with the theoretical framework in various literatures and sound international practice, the following recommendation are made the view to improving the performance of a donor financed development project of EU at public sector (federal level).

Based on the study conducted and conclusion, the researcher recommends the following:

- ❖ Inappropriate project manager (appointed project manager) should be replaced by competent project manager. To achieve impact in their interventions development organizations need to rely more and more on expertise of skilled project managers (coordinator) who not only need to be competent in the relevant technical areas but have advanced managerial skills to plan, organize direct and control a project successfully.

- ❖ With lack of proper planning all projects will tend to exceed the approved schedule and budget parameters and begin to run into problems .So to be effective, organization needs to invest project management at the very beginning of project cycle. (PM4DEV 2014).It is a lower cost effort to spend time upfront to develop the project plan which is better than send a lot of time doing rework during implementation.
- ❖ More open and frank government–donor policy dialogue: while Ethiopia’s country ownership and leadership in designing and managing its development strategies and programs is imperative, the national effort should be complemented by supportive regional and international environment. GOE should continually review its visions, policies and development strategy to ensure that they are not isolated, but rather are aligned with the regional and international development framework through constructive polices dialogue with regional and international community including donor countries.
- ❖ Of the many managerial views, the assertion that private sector involvement and practice will solve the public sector poor performance is the most accepted view today. Though the private sector is the engine of growth of economy of a country, it is too early to draw on lessons from the experience of the Ethiopian private sector (it is weak because it is at its infancy stage).Therefore, building the capacity of the Ethiopian public sector that plays a pivotal role in the development process of the economy has to be an outstanding issue for the government.
- ❖ Increase Domestic Resource Mobilization: The generating of domestic resource through saving and investing wisely, the essential foundation of sustainable development for any country. The high dependency on external resources puts limits on the country policy and creates some vulnerability. Domestic resource mobilization is going popularly and is becoming necessary as donor resources continue to decline. Developing countries benefit from local contribution of time

from local communities, manual labor and cash towards development project however this is not given much weight.

For this by increasing the number of domestic financial institutions like Banks and Insurance, Micro Finance institutions it presupposes that sufficient deposit levels and prudent lending behavior it creates enough domestic mobilization of resource and consequently for a final stability and economic development for the country. In future domestic resource mobilization will provide a crucial viable long term financing basis for development projects undertaken by governments.

- ❖ The organization which executes the project must continually seek ways to keep their employees and work groups engaged in their work motivated, efficient and productive. For long term EU project to be success avoid the employment of technical assistance which has not enough experience to the project also the concerned body should be *reconsider* the market price of the salary of local project staff, establish an environment of benefit package like pay Top-Up for project staff and project co-coordinator (that assigned temporarily from public sector) because it reduced the turnover of staff. An organization success can depend on its ability to create the conditions and systems (formal and informal) that attract the best people to work there with good incentive system encourage employees to be productive and creative.
- ❖ Donors are needed to get a clear information about funds are used and how resources are linked with results also beneficiaries needed to be informed about the project because the ultimate owner of the development project, hence progress report and implementation report is very crucial, it should be prepared timely because to enhance the effectiveness of project /program implementation.
- ❖ The rules and procedure of the government procurement and property administration must be clearly defines, efficient and transparent and also should be match with donors rules and procedures.
- ❖ All relevant organization must work in harmony if the desired project outcomes are to be achieved. It is clear that there is need for coordination of key

stakeholders to ensure the funds received use efficiently,(Edwards & Hulme, 1995).The key stakeholders NAO, IA and EUD must be a coordinated to effectively utilizing of donor funds as well as fulfilling the overall objectives of the country .

- ❖ Because of the obvious social, economic and ecological impacts of aid interventions, projects are inherently political, and as such attract a wide range of stakeholders who demand high level of accountability from implementing agencies (Crawford, Bryce, 2003).In doing this, Ethiopian public sector have capacity limitation problem, most of technical assistance for project came from donor's country with high rate salary. To avoid this and to create professional person locally, it should be build the capacity of public sector.

Efficient, effective and sustainable public sector performance in economic management in general and proper implementation of development projects in particular, is a key to improve the growth of the economy and to raise the standard of living of the people in developing countries. Therefore, building the capacity of Ethiopian public sector that plays a pivotal role on the development process of the economy, has to be and outstanding issue for the government.

- ❖ Public Financial Management (PFM) system: To ensure efficient financial management and effective administration of a development project as well as provide timely financial information, it should have been establishing strong financial and procurement system at a country and program levels are pre-requisites to ensure that development partners will disburse their funds through them, rather than using different system. This financial management uses both for donors for aid delivery system and implementing entities (GOE).Currently, it is practically has been established in pilot level under the responsibility of MoFED, (MoFED 2013b).
- ❖ In addition to this maintain and ensure internal control over project finance implemented a double entry account system both in IA and NAO ,maintain proper fixed asset register Book, and all project documents are kept in safe

- custody and are readily made available to the independent auditors for (ROM and Court of Auditors) for examinations.
- ❖ Absence of ownership for a development project in public sector, have shown as great problem. In order to solve problem early and on time, realistic and appropriate terms of accountability has to be designed and implemented by the concerned public bodies
 - ❖ **Finally**, most of the Ethiopian public sector development projects have been placed under functional department ,both the technical expert and project manager (coordinator) will be busy respectively on routine operations and other official duties ,so that the project will suffer delays in timely decisions and implementation, hence the researcher recommended that the public sector (functional structure) of implementing the donor financed project should be substitute by a separate project management unit (PMU) or (PIU) Project implementation Unit implemented by another independent single entities, which is a type of projectized organizational structure. Project is centralized in a separate division which is having skilled project manager serves the project management needs of all division of the company, it is suitable for an effective and efficient utilization of donor funds and fulfill project objectives properly as lessons learned experience from(ESRDF) Ethiopia Social Rehabilitations and Development Fund and Congo Democratic Republic –NAO (Richman, 2012:7).
 - ❖ **Generally**, those the above limited challenges not only for a development projects of Ethiopian public sector, but as a country, this is also a country level problems because, Ethiopia is getting resources from development partner is one of the major revenue of a country and still fill the financial gap of the country, this implies those problem has been created in case of aid dependency. Hence to get rid of aid dependency culture among the people that are create able to work ,the GOE need to mobilize additional resources from domestic mobilization of resources like increase the number of financial institutions locally and adjusting tax reforms (Adam, 2012) to ensure that implementing entities at federal and

regional level have access to sufficient funds, domestic taxes represent a *vital* source of revenue of governments, play a fundamental role in redistributing wealth within an economy and in the case of aid recipients can help end dependency on high-income donors (Adam, 2012). Effective tax system is about more than financing development there for, on the domestic front, concert steps can be taken to reduce the problems of corruptions, mismanagement and weak administrations as well as reducing corporate tax evasion of multinational companies by designing effective tax system. In the longer term, improved revenue collection from tax system is clearly the best course of action for ending aid dependency in low-income countries.

5.5 Suggestion of Further Research

This research presents a fraction of the results obtained from questions and interview survey on challenges of a development project of EU specifically at public sector which provides valuable insight on a range of issues related to the EU development projects. There is still much to be done in order to improve and refine the methodology of the study as well as to utilize many options for further analysis.

As our country is not at the level of covering its full expenditure from domestic sources and dependent on foreign aid or the fund from different donor agencies to spend in different sectors of economic for issue of development aspects or reforms, the study is better to be replicate at national level in other regions and in different Non-Government Organizations (NGO's) to further identify the challenges of donor financed development projects.

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APPENDIX-A: QUESTIONNAIRES
ST. MARY’S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
SURVEY QUESTIONNAIRE

Dear Respondent,

This Thesis is entitled “Challenges on Donor Financed Development Project in the European Union Development Cooperation in Ethiopia public Sector” (federal level) The investigator is Bitewlign Challa who is currently in MBA (in Accounting and Finance) student in St. Marry University .

The aim of this Thesis is to investigate the Challenges on Donor Financed Development Project in the European Union Development Cooperation in Ethiopia: Public Sector (Federal Level). The data you are going to be provided will not be used for the other purpose, other than academic purposes.

Accurately and objectively providing sufficient and required information would certainly lead to the realization of the research objectives and finding solutions to the problems identified in the study.

Participation in this project is completely voluntary. Individual responses will not be identified in the final report (or Thesis paper). The researcher promises to keep your answers confidential and use them only for fulfilling of academic requirements.

So, Please be honest and objective while filling the questionnaire.

- ❖ There is no need of writing your name.
- ❖ In all cases where answer options are available please put “X” in the appropriate space
- ❖ Should you have any questions regarding completing the questioner or about participation in this study please don’t hesitate to contact me at: (E –mail): bethyeshetu@yahoo.com or +251911 623387 (Telephone)

I would like to thank you in advance for your generous time, honest and prompt responses.

Bitewlign Challa

Best regards

Section One: Personal Details

Instruction: This section elicits demographic information of the respondents.

Please *encircle* the appropriate alternative for each of the following statements:

1. Would you please indicate your Sex?
 - 1) Male
 - 2) Female
2. To which age group do you belong?
 - 1) 20 to 35
 - 2) 36 to 40
 - 3) 41 to 60
 - 4) Above 60 years
3. What is your current level of Education?
 - 1) College diploma or equivalent
 - 2) Bachelor degree
 - 3) Master Degree
 - 4) PhD and Above
4. Marital status
 - 1) Married
 - 2) Unmarried
 - 3) Divorced
 - 4) Widowed
5. Which project organization type from the following do you belong?
 - 1) Government Organization – Public Sector (non-project staff)
 - 2) EU delegation to Ethiopia
 - 3) Project staff
6. How long do you work with EU Funded development projects?
 - 1) Less than 2 years

- 2) 2-5 years
 - 3) 6– 10 years
 - 4) More than 10 years
7. What is your qualification?
- 1) Accounting
 - 2) Management
 - 3) Project Management
 - 4) Economics
 - 5) Agricultural Economics
 - 6) others
8. In which Organization of public Sector (line ministries) you are working currently?
-
9. What is the duration of your Project?
- 1) Less than 2 years
 - 2) 2- 5 years
 - 3) More than 5 years
10. What is the amount of your project in ETB?
- 1) Less than 5 Million
 - 2) 20 Million
 - 3) More than 50 Million

Section Two: Information about Challenges on Donor Financed Development Project in the European Union Development Cooperation in Ethiopia Public Sector (Federal Level)

Instruction: This section elicits data which are related to challenges on donor financed development project in the European Union Development Cooperation Project in Ethiopia public sector. So please read each the statement of *suggested challenges* carefully and answer challenges for the development project of European Union in public sectors (Federal Level) and *tick* your responses on a given space below alternative.

S. No.	Suggested Challenges for a Development Project of EU implemented in public sector	Very severe Problem 5	Major problem 4	Moderate problem 3	Minor problem 2	No problem 1
	<i>Project Management</i>					
1.	Inappropriate project manager (with respect to knowledge, competence, influence, authority)					
2	Lack of Coordination between NAO ,IA and EUD					
3	Availability of Funds					
4	Delays caused by bureaucratic administrative system (approval, procurement & release of funds)					
5	Poor Leadership style ,Culture & Bureaucracy in your organization					
6	The country's has no clear development strategy and program					
	<i>Financial Management</i>					
7	All assets owned by project fund are not recorded in an asset register					
8	Lack of computerized financial management and accounting system this hinder timely disbursements and settlements of funds as well as timely auditing by external auditors.					
9	No participation of project accountant during project appraisal					
10	Absence of division of work in financial staffs					
11	Unclear lines of authority and responsibility due to structural of the organization					
	<i>Project design and Planning</i>					
12	Lack of effective consultation during planning					
13	Lack of detailed realistic and current project plan (schedule, budget, procurement) or (poor					

	project design					
14	Inappropriate stake holders involvement on the planning stage					
	<i>Capacity and Capability</i>					
15	Lack of competence of project Planner					
16	Lack of Local Capacity					
17	Lack of local capacity to manage project implementation					
18	Existence of limited professional in some area locally					
19	Limited training and experience for donor's rules and producers for disbursements and others.					
	<i>Donor Rules and Procedures</i>					
20	Delays on the procurement of TA					
21	Lack of clear policies of donors and governments to sustain projects activities and results					
22	Lack of uniform salary payment on the side of donors for project staff.					
23	Interests of donors not to finance governments priority programs /projects					
24	Lengthy procurement procedures of EDF					
25	Long lag time on bid preparation approval and evaluation (on side of donor agencies)					
	<i>Project Implementation (Administration)</i>					
26	Lack of strong local ownership of the Project					
27	Unutilized fund don't returned on time to donor's Account					
28	Lack of frank and open discussion from Government side.					
29	Lack of incentive moral and material (unmotivated project staff)					
30	High staff turnover of project staff					

31	Low salary scale for project staff					
32	Low scale of per diem rate					
33	Lack of implementation report and progress report on NAO/IA/Regional office. (Monitoring and Evaluation)					
34	Shortage of vehicles for field trip					

Thank you for your time and concern again

If you ranked any of these challenging of a donor financed development project of EU at public sector, as minor problem or no problem, would you please briefly explain why?

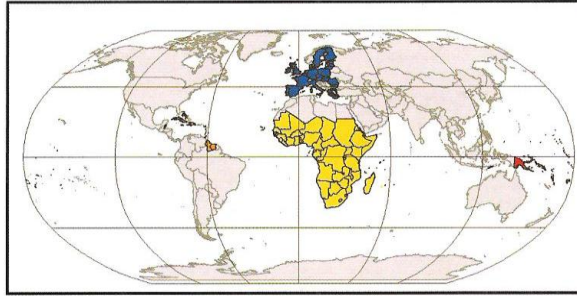
APPENDIX-B: INTERVIEW
ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

Semi-structure interviews questions on “challenges on donor financed development project in the European Union Development Cooperation in Ethiopia Public Sector” (Federal Level) for sampled respondent.

1. For how long have you been working with this project?
2. What is your position in the organization and your role in their project management?
3. What is the name of your project /programs implemented in your organization?
4. Through the process of managing and implementing the EU development projects, what are the critical challenges? And not challenges? Please explain it
5. Do you believe that the right person are assigned in a project and are they good enough for the project? Explain the reason
6. What about donor's rules and regulations? Is it easy understandable or not? Explain briefly
7. Problems and outstanding issues with respect to governments and donor polices.
8. Do you have a good relationship with NAO project Expert and EU delegation staff? What are their weakness or strengthen?
9. Do you have any idea how can efficiently and effectively utilizing a development project?
10. Do you know other ACP (other African) country which is properly implementing “EU” development project? Explain
11. In general what do you recommend to increase the benefits and reduce the challenges of project implementation of EU development project fund?
12. Do you have any comment other than the above questions? Give it with a good recommendation (solutions)
13. If you have any opinion regarding “*challenges on donor financed development project in the European Union Development Cooperation Project in Ethiopia: at public sector*” please specify...

Thank you for your cooperation

Africa – Caribbean – Pacific and European Union countries



CARIBBEAN
 Antigua and Barbuda The Bahamas Barbados Belize Cuba Dominica Dominican Republic Grenada Guyana Haiti Jamaica Saint Kitts and Nevis Saint Lucia Saint Vincent and the Grenadines Suriname Trinidad and Tobago

PACIFIC
 Cook Islands Federated States of Micronesia Fiji Kiribati Marshall Islands Nauru Niue Palau Papua New Guinea Samoa Solomon Islands Timor Leste Tonga Tuvalu Vanuatu

AFRICA
 Angola Benin Botswana Burkina Faso Burundi Cameroon Cape Verde Central African Republic Chad Comoros Congo (Rep. of) Côte d'Ivoire Democratic Republic of the Congo Djibouti Equatorial Guinea Eritrea Ethiopia Gabon Gambia Ghana Guinea Guinea-Bissau Kenya Lesotho Liberia Madagascar Malawi Mali Mauritania Mauritius Mozambique Namibia Niger Nigeria Rwanda Sao Tome and Principe Senegal Seychelles Sierra Leone Somalia South Africa Sudan Swaziland Tanzania Togo Uganda Zambia Zimbabwe

EUROPEAN UNION
 Austria Belgium Bulgaria Cyprus Czech Republic Denmark Estonia Finland France Germany Greece Hungary Ireland Italy Latvia Lithuania Luxembourg Malta Netherlands Poland Portugal Romania Slovakia Slovenia Spain Sweden United Kingdom

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