



THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

**THE FINANCIAL MANAGEMENT PERFORMANCE
OF THE FEDERAL GOVERNMENT (PEFA REPORT)**

FINAL REPORT

June 2015

CURRENCY AND EXCHANGE RATES

Currency unit = Ethiopian Birr (ETB)

US\$ 1 = ETB 19.25 (as of February 10th, 2014)

Ethiopian Fiscal Year (EFY): July 8 – July 7

EFY 2005 = Gregorian FY 2013 (July 1, 2012 – June 30, 2013)

In this document the term FY refers to the Gregorian fiscal year, unless described as EFY.

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ACRONYMS AND ABBREVIATIONS

AD	Administrative Department
ADB/ADF	African Development Bank/African Development Fund
AFRITAC	IMF African Technical Assistance Center (regional center)
AGA	Autonomous Government Agency (PEFA term)
ASYCUDA	Automated System for Customs Data
BFC	Budget and Finance Committee, House of People's Representatives
BI	Budget Institutions (ministries, agencies, institutions, and other budgetary units)
BoFED	Regional Bureau of Finance and Economic Development
BS	Budget Support
CBE	Commercial Bank of Ethiopia
CPAR	Country Procurement Assessment Report
CG	Central Government
COFOG	Classification of Functions of Government
COPCU	Channel 1 Programs Coordinating Unit, MOFED
CRB	Complaints Review Board (procurement)
CS	Country Systems
CSRP	Civil Service Reform Program
DAG	Development Assistance Group
DMFAS	Debt Management and Financial Analysis System
DFID	Department for International Development (UK)
DIP	Democratic Institution Program
DSA	Development Support Activity
EU	European Union
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Program
ERA	Ethiopian Roads Authority
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian birr
EURIBOR	Euro Interbank Offered Rate
EU	European Union
FD	Finance Department
FDRE	Federal Democratic Republic of Ethiopia
FM	Financial Management
FY	Financial Year or Fiscal Year
GAD	General Accounting Directorate
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GFS	Government Finance Statistics, IMF
GTP	Growth and Transformation Plan 2010/11-2014/15
HIPC	Highly Indebted Poor Countries
HRD	Human Resource Department
IAD	Internal Audit Department
IBEX	Integrated Budget and Expenditures
ID	Inspection Department
IDC	International Development Corporation
IDA	International Development Agency (World Bank)
IFIs	international financial institutions
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISPPIA	International Standards for the Professional Practice in Internal Audit

IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
LIBOR	London Inter-bank Offered Rate
MDG	Millennium Development Goals
MEFF	macroeconomic and fiscal framework
MoFED	Ministry of Finance and Economic Development
MoH	Ministry of Health
MTDS	Medium-Term Debt Strategy
MTEF	Medium-Term Expenditure Framework
NBE	National Bank of Ethiopia (Central Bank)
NGO	Non-Governmental Organization
NA	Not Applicable
NR	Not Rated (for lack of information)
NS	Not Scored (could be NA or NR)
ODA	Official Development Assistance
OECD/DAC	Organization for Economic Cooperation and Development/Development Assistance Committee
OFAG	Office of the Federal Auditor General
OPCFM	Operations Policy and Country Services – Financial Management Unit, World Bank
PAC	Public Accounts Committee
PBS	Promotion of Basic Services
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator (PEFA)
PPA	Public Procurement and Property Administration Authority
PPESA	Privatization and Public Enterprises Supervising Agency
PREM	Poverty Reduction and Economic Management, World Bank
PSCAP	Public Sector Capacity Building Program
PSR	Public Sector Reform
RFQ	Request for Quotation
ROSC	Report on Standards and Codes (World Bank/IMF)
SIGTAS	Standard Integrated Government Tax Administration System
SN	Sub-national
TAC	Tax Appeal Commission
TIN	Taxpayer Identification Number
TOR	Terms of Reference
TSA	Treasury Single Account
UNDP	United Nations Development Program
UNICEF	United Nations Children’s Fund
USAID	US Agency for International Development
USD	US dollars
VAT	Value Added Tax
WB	World Bank
WCBS	Woreda and City Benchmarking Survey (World Bank)
YTD	Year to Date

SUMMARY ASSESSMENT

Two previous PEFA assessments have been made of the Federal Government of Ethiopia (GoE), the first in 2007 and the second in 2010.

This report of the 2014 PEFA assessment covers the Federal Government budgetary institutions and extra-budgetary institutions/funds, insofar as they are within the IMF-GFS definition of central government. All autonomous government agencies at federal level are included.

A summary of scores down to the dimension level and comparisons with the 2010 assessment are given at Annex 1. A table of indicator scores is provided at the end of this Summary Assessment.

Integrated Assessment of PFM Performance

Budget credibility has improved. Budget variances in 2010/11-2012/13 were significantly lower than in 2006/07-2008/09. Causes are a combination of better forecasting of domestic revenue (except investment income, see PI-3) and external grants (D-1 and D-2) and better budget discipline. There are no material arrears of expenditure.

Comprehensiveness and transparency: The new chart of accounts provides economic classification of revenue and expenditure broadly in line with the IMF-GFS. The introduction of program budgeting, now in its third year, provides a basis for Classification of Functions of Government (COFOG) sub-functional classification, though this is not done. Expenditure is also classified administratively by budget institution, by jurisdiction and by source of finance (PI-5). Budget documentation is fairly complete (PI-6) and reports include most donor-supported project expenditures but omit significant operations by extra-budgetary funds (PI-7). Fiscal relations with the regional administrations appear to be transparent (PI-8 (i) and (ii), and PI-9 (ii)).

Except for 41 public enterprises under the Privatization and Public Enterprises Supervising Agency (PPESA), there is a lack of data on the number, size, liabilities (guaranteed and non-guaranteed, domestic and external) of public enterprises that report to their line ministries. MOFED does not routinely receive their audited accounts or assess fiscal risk arising from their operations.

The overall fiscal transparency of the Federal Government is still low: the budget is not available to the public at the time it is submitted to Parliament, and neither are budget execution reports during the year, or contract awards (PI-10).

Policy-based budgeting: The annual budget process is divided into a planning stage and a budget preparation stage. A Macroeconomic and Fiscal Framework (MEFF) sets the main sectoral allocations and regional subsidy, which is approved by the Council of Ministers. Budget institutions (BIs) are given recurrent and capital expenditure ceilings within which to prioritize their programs and sufficient time to complete their detailed estimates. The process of preparation and approval closely follows the budget calendar: Parliament approves the budget before the start of the budget year (PI-11). Budgeting is carried out within a three-year rolling framework. Debt sustainability analysis is undertaken annually and now covers domestic debt as well as external debt. Major sectors such as education, health and roads have medium-term strategic plans, but these are not prepared within MEFF projections of available resources (PI-12).

Predictability and control in budget execution: The legal framework for taxation is mostly comprehensive and clear though some doubts exist, especially due to the number of new proclamations and their increasing complexity. Taxpayers are educated and supported by a variety

of ERCA programs. Machinery for taxpayers to appeal against assessments is well established (PI-13). Taxpayer registration is being progressively tightened and penalties are imposed that motivate prompt compliance. Tax audits are planned and implemented on a risk basis and monitored on their cost-effectiveness (the additional revenue assessed per tax auditor) (PI-14). Tax arrears were almost 4% of collections in 2012/13, but appear to be collected mainly within 12 months. Revenue collections are transferred promptly to Treasury-controlled bank accounts, mostly daily, and reconciled monthly. With regard to periodic reconciliation of aggregate opening arrears, assessments, penalties imposed, collections, waivers and closing arrears, the Assessment Team has not seen any (PI-15).

Cash management has been improved through a Treasury Single Account (TSA) and BI zero-based bank accounts. BIs make cash forecasts when their budgets are approved and re-forecast every month. During the year MoFED has considerable power to re-allocate the approved budget within the aggregate total (PI-16). Debt and guarantees are controlled by MoFED and managed by a computerized data system that is fairly comprehensive, omitting only some public enterprise debt, and reports are issued regularly on debt service, debt stock and operations. A Medium Term Debt Strategy (MTDS) has been issued. Cash balances are consolidated daily through the TSA, which covers most government bank accounts (PI-17).

The federal payroll is decentralized to BIs and is well controlled (PI-18). Procurement is also decentralized and regulated by the Public Procurement and Property Administration Authority (PPA). The legal framework applies to most BIs, though not to the extra-budgetary funds, public enterprises and most donor-funded projects. Open bidding is the default method of procurement, and non-competitive methods are kept to a minimum. BI procurement plans and contract awards are not yet transparent. Complaints are handled by independent Complaints Review Boards in a well-established procedure (PI-19).

Internal controls are generally comprehensive and sound, but implementation faces challenges of staff capacity and high turnover. The present IBEX system controls commitments within approved budgets, but not within projections of available cash to pay the bills. In recent years, cash has been sufficient to meet all budgeted expenditures, so there is no problem of expenditure arrears. Internal and external audit continue to report many cases of non-compliance with rules, but these are a small minority of all transactions (PI-20). All BIs have functioning internal audit units, which prepare annual audit plans on a risk basis and report quarterly to MoFED Inspection Directorate. Audit findings are discussed with auditees at the conclusion of each audit and action plans are agreed and followed up (PI-21).

Accounting, recording and reporting: Bank reconciliations at the Treasury level are up to date, but at BI level monthly reconciliations can take more than a month to complete. Advances and suspense accounts are monitored and cleared (PI-22). Monthly budget execution reports are produced, allowing regular comparison with the budget, though without data on outstanding commitments. A few BIs are late in submitting their reports. The quality of information is generally satisfactory (PI-24). Annual financial statements are fairly comprehensive and timely, though omitting some of the disclosures required by international standards (PI-25).

External scrutiny and audit: External audit follows international standards, and covered 100% of Federal Government expenditure in 2012/13. Performance audits are also undertaken, but not yet IT security audits. The introduction of continuous audits (starting external audit during the year under audit) has brought forward the implementation of corrective actions. Audit reports to Parliament are up to date, though subject to delays in receipt of the financial statements (PI-26). In

Parliament, the Budget and Finance Committee exercises a comprehensive review of the budget before it is approved, and the Public Accounts Committee (PAC) reviews the Office of the Federal Auditor General (OFAG) report with the heads of BIs in default. However, the PAC does not make any separate recommendations or issue its own report: it underlines and strengthens the OFAG recommendations and any follow up is left to OFAG (PI-27 and 28).

Assessment of the Impact of PFM weaknesses

Aggregate fiscal discipline: Fiscal discipline is strong, but lack of transparency limits the availability of information on government performance and on how fiscal risks are being addressed. A particular area of risk is with regard to public enterprises and extra-budgetary funds, which are left out of the fiscal picture.

Strategic allocation of resources: BIs prepare their budgets within firm financial ceilings in an orderly manner. However the sector strategic plans examined are based on unrealistic levels of resource availability, so it is not clear how budgets are based and whether they are fully aligned with the Growth and Transformation Plan 2010/11-2014/15 (GTP). In addition, the level of supplementary budgets is high – an average 14% higher than original budgets over the last three years, mostly on capital expenditure, and there have been major re-allocations among sectors and programs. The lack of timely information on general government expenditure (PI-8 (iii)) undermines sectoral planning.

Efficient service delivery: Efficiency by service delivery units depends on dependable resource allocations being known well in advance. This allows orderly procurement planning and sufficient lead time to use competitive methods and take advantage of bulk discounts and framework contracts. The release of expenditure ceilings for three months at a time facilitates planning by the BIs and increases potential efficiency savings. BIs appear to be using competitive methods of procurement most of the time and this should promote value for money.

Prospects for reform planning and implementation

Most PFM reform is undertaken through the Expenditure Management and Control Program (EMCP), a multi-donor program that is coordinated by MoFED. Its Steering Committee is chaired by a State Minister of Finance. Other PFM reforms are being managed by other donors, such as support to OFAG and ERCA. It is not clear how overall coordination is achieved, or where responsibility lies. Nevertheless, government ownership and commitment in the EMCP are strong and its management processes are sound. One of the key constraints affecting improved performance of the PFM system in Ethiopia is capacity constraints on account of high staff turnover and low salaries.

Donor practices: Sectoral budget support is provided mainly through the Promoting Basic Services (PBS) Program, and has exceeded forecasts in two of the last three years, but its quarterly breakdown is not predictable. Program and project support are also unpredictable and not reported quarterly by donors. There is low usage (48%) of country systems.

Table SA. 1 PEFA Performance Indicators for FDRE, 2010 and 2014

	A. PFM OUT-TURNS: Credibility of the budget	Score 2010	Score 2014
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PI-1	Aggregate expenditure out-turn compared to original approved budget	B	A
PI-2	Composition of expenditure out-turn compared to original approved budget	C+	B+
PI-3	Aggregate revenue out-turn compared to original approved budget	B	B
PI-4	Stock and monitoring of expenditure payment arrears	A	A
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	Score 2010	Score 2014
PI-5	Classification of the budget	B	B
PI-6	Comprehensiveness of information included in budget documentation	A	B
PI-7	Extent of unreported government operations	D+	D+
PI-8	Transparency of Inter-Governmental Fiscal Relations	B+	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+†	C
PI-10	Public Access to key fiscal information	C	C
	C. BUDGET CYCLE	Score 2010	Score 2014
	C (i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	A	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C†	B
	C (ii) Predictability & Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	B+	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	B
PI-15	Effectiveness in collection of tax payments	NS	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	B	C+
PI-17	Recording and management of cash balances, debt and guarantees	B†	B
PI-18	Effectiveness of payroll controls	B+	B+
PI-19	Competition, value for money and controls in procurement	NA	C+
PI-20	Effectiveness of internal controls for non-salary expenditures	B+ <i>((i) over-scored)</i>	B <i>(no real change)</i>
PI-21	Effectiveness of internal audit	C+	B+
	C (iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B+	A
PI-23	Availability of information on resources received by service delivery units	NA	NA
PI-24	Quality and timeliness of in-year budget reports	B+ <i>((i) over-scored)</i>	C+ <i>(no real change)</i>
PI-25	Quality and timeliness of annual financial statements	C+	C+†
	C (iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+†	B+
PI-27	Legislative scrutiny of the annual budget law	D+†	B+
PI-28	Legislative scrutiny of external audit reports	C+	D+
	D. DONOR PRACTICES	Score 2010	Score 2014
D-1	Predictability of Direct Budget Support	NS	A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C	D+
D-3	Proportion of aid that is managed by use of national procedures	C	D

The table below summarizes the changes since the 2010 assessment.

Table SA. 2 Summary of scores for 2010 and 2014

Score	2010	2014
A	3	7

B+	6	5
B	6	7
C+	6	4
C	4	2
D+	2	4
D	0	1
NS	4	1
Total	31	31

In total, nine indicators appear to have scored higher (PI-1, 2, 8, 12, 13, 21, 22, 26 and 27), eight have scored lower (PI-6, 9, 16, 20, 24, 28, D-2 and D-3), and ten have remained unchanged (PI-3, 4, 5, 7, 10, 11, 14, 17, 18, 25). Three other indicators (PI-15, 9, D-1) were not applicable or not scored in 2010, and PI-23 was not scored in either year. Overall, there appears to be a slight forward movement. However, the comparisons are strongly affected by new information taken into account in this assessment, which was not taken into the 2010 assessment. Several of the 2010 indicator and dimension scores appear to have been over-rated, which results in an under-assessment of progress since then. These factors are explained in the individual indicator boxes in Chapter 3, and in detail in Annex 1.

1. Introduction

1.1 Background and Objectives

Two PEFA assessments have been made of the Federal Government of Ethiopia (GoE), the first in 2007 and the second in 2010. Following discussions in 2013 between ADB, DFID-UK, EU, Irish Aid and the World Bank and other donors and the Ministry of Finance and Economic Development (MoFED), MoFED took ownership of the next PEFA by setting up a Technical Team to supervise the process. The Minister of State, MoFED, at July 31, 2013, nominated a team of 14 members, comprising the Head, Expenditure Management and Control Program Coordinating Unit (chair), 10 directors/senior officers of MoFED and 3 directors/senior officers of the Public Procurement and Property Administration Agency (PPA).

After a period of consultation among donor partners and MoFED, a Concept Note was agreed.¹ This covers a set of seven PEFA assessments - the Federal Government, Addis Ababa City Administration, and five regions (states) – Oromia, Amhara, SNNPR, Tigray and Somali, and a Synthesis Report consolidating the findings. This report was the first to be produced by the Assessment Team and covers only the Federal Government.

The objective of the PEFA assessment is to provide an independent assessment on the quality and performance of the public financial management (PFM) system in the Federal Government. This will be used to benchmark progress against a standard set of indicators and as the basis for dialogue on ongoing PFM reforms supported through the Expenditure Management and Control Program (EMCP), and for new PFM initiatives such as the request from MoFED to the World Bank to move forward with a concept note for the preparation of a stand-alone PFM project. It may also feed into the proposed projects in tax administration, audit and transparency to be funded by DFID. In accordance with PEFA philosophy, the report itself makes no recommendations, but provides a pool of reliable information on which dialogue can be based.

It is not the purpose of the assessment to evaluate and score different institutions or individuals in charge within the Federal Government. It is rather to strengthen the Government's own PFM reform program and identify priorities within the reform agenda.

1.2 Scope

This report covers the Federal Government budgetary institutions and extra-budgetary institutions/funds insofar as they are within the IMF-GFS definition of central government. All autonomous government agencies at federal level are included. State-owned enterprises are not included except insofar as they impact on fiscal risk at federal level (indicator PI-9). The table below shows the structure of general government in terms of the number of entities and their shares of total general government expenditure. No aggregate data are available on the non-financial public enterprises or the public financial institutions.

¹ World Bank (2013) Concept Note: Ethiopia: Public Expenditure & Financial Accountability (PEFA) Assessment 2014

Table 1. 1 Structure of General Government 2012/13

Structure of General Government 2012/13					
Institutions	Number of entities	Total expenditure ETB millions	Subsidy to Regions ETB millions	Net expenditure ETB millions	% of total
Federal Government and AGAs included	166	138,212	35,556	102,656	70.7
Extra-budgetary funds	7	3,489		3,489	2.4
Regional bodies and city administrations	11	39,051		39,051	26.9
Total	184	180,752	35,556	145,196	100.0

Source: Accounts of the Federal Government and Regional Administrations.

1.3 Process of the Federal Assessment

The assessment follows the *Good Practice Note on PEFA Assessments* and the *Guidelines for Conducting a Repeat Assessment* issued by the PEFA Secretariat. The scoring of all 31 indicators was done according to the revised PEFA Framework (January 2011, together with clarifications and other guidance collected into the PEFA Field Guide (May 2012)).² The revised Framework changed the method of calculation of indicators PI-2, 3 and 19, so this report includes a re-working of the scores given in the 2010 assessment so as to make a fair comparison with 2014, as far as possible.

The process included a preparation and training stage, a fieldwork stage, and a report drafting stage. The training consisted of: (1) a half-day High Level Workshop in Addis Ababa on January 28, 2014, inaugurated by HE Dr Abraham Tekeste, State Minister, MoFED. Almost 50 high level officials attended, including Directors from MoFED, Regional BoFED Heads and Auditors General; and (2) a three-day Training Workshop in Hawassa, January 28 – February 1, 2014, attended by almost 90 government officials who are the main counterparts for the assessments. The training was delivered by the Head of the PEFA Secretariat in Washington DC and the Lead FM Specialist in World Bank OPCFM.

The main fieldwork for the Federal Assessment was done February 10-28, 2014. Following an initial meeting of the Assessment Team with the Government Technical Team, the assessment included interviews with civil servants at the level of department heads and technicians and with representatives of donor agencies (listed at Annex 2) and review of key documents (see Annex 3). The assessment team comprised three independent consultants – Tony Bennett (Team Leader), Getnet Haile, and Zeru Gebre Selassie, funded by UKaid, USAID, Irish Aid and World Bank, under the supervision of Parminder Brar, Sector Leader and Lead Financial Management Specialist. Individual terms of reference were provided to the consultants, based on the Concept Note. Members of the Government Technical Team facilitated interviews and document gathering in their individual capacities as senior officials. As far as possible, the information collected was triangulated with other sources.

² The PEFA Framework is presently under review. A new Framework will probably apply to future assessments. All present guidance is available on the PEFA website www.pefa.org.

A draft report was prepared during and after the fieldwork, and was presented to World Bank on March 10, 2014. It was circulated to all donor agencies and the Federal Government of Ethiopia (GoE). The comments of the donor agencies were addressed in a second draft on April 30. Comments from MoFED were received later. A workshop was held on October 20 to present the second draft to all stakeholders (see list of participants at Annex 2), and further meetings were held between the Team Leader and key respondents the following week. The assessment team addressed all comments and prepared a draft final report by October 31, 2014. Further comments were received from World Bank and the National Treasury and have been taken into account in this final report. It is intended that the final report will be posted on the MoFED website and linked to the PEFA website.

1.4 Donor Harmonization

The donor agencies concerned with PFM in Ethiopia are the World Bank/IDA, DFID, ADB, EU, USAID, Irish Aid, the UN Group and others who have set up a PFM Donor Group, co-chaired at the time of the assessment by DFID and the World Bank. The Donor Group was fully involved in the arrangements for the 2014 PEFA assessment, starting with the Concept Note and agreement on funding. The assessments are being funded jointly by DFID, USAID, Irish Aid and the World Bank, with the World Bank managing the process. A first meeting was held between the Donor Group and the Assessment Team on February 11, and a progress review meeting on February 28, 2014.

Donor agency inputs were solicited during the fieldwork, both for the scoring of the donor indicators (D-1 to 3) and for their perceptions on financial management performance over the past four years, and possible future directions. Donors commented on the first draft report, and participated in the workshop on October 20, 2014.

1.5 Quality Assurance

A robust quality assurance has been put in place through the PEFA Secretariat PEFA CHECK system and through the World Bank peer review process. The criteria for the PEFA Secretariat to give the PEFA CHECK endorsement were followed.

The World Bank process includes a Decision Meeting on the Concept Note, which was chaired by the Country Director. The World Bank peer reviewers are: (i) Nicola Smithers, PFM Cluster Leader, PREM Public Sector Anchor, World Bank Washington DC; (ii) Gert Van der Linde, Lead PFM Specialist, South Africa CO; (iii) Sanjay Vani, Lead FM Specialist, OPCS, World Bank, Washington DC; and (iv) Manoj Jain, Lead FMS and FM Cluster Leader, South Asia Region, World Bank New Delhi.

The Government PFM team in MoFED was consulted at every stage of the process to ensure that the reports are of the required quality and to take ownership of the process and the outputs. In addition, the draft report was circulated to the PFM Donor Group and their inputs sought before the report was finalized.

1.6 Structure of the Report

Chapter 2 briefly describes the context of the country, the structure of the public sector and of public sector operations, and the legal and institutional framework for PFM. Chapter 3 presents the evaluation of PFM systems, processes and institutions based on the 31 high-level indicators of the

PEFA performance framework. Chapter 4 describes recent and on-going reforms and main areas of intervention.

2. Country background information

2.1 Economic Context, Development and Reforms

The Federal Democratic Republic of Ethiopia (FDRE), with a population of 81.6 million, growing at 2.6% per annum (estimate 2012)³, is the second most populous country in sub-Saharan Africa. It is land-locked and has an area of 1.1 million km². The Ethiopian economy has expanded at an average 10.7% per annum over the last decade (2003/4-2011/12), outperforming the sub-Saharan average of 5.0%, but at USD 471 (2012), Ethiopia's per capita gross domestic product (GDP) is far lower than the regional average.⁴ The objective of the Growth and Transformation Plan 2010/11-2014/15 (GTP) is to attain middle income status (currently USD 1,025 and above) by 2025. This implies an average growth rate of at least 6.2% plus the population growth rate.

Inflation has varied: after reaching 38.1% in 2011, it has moderated to 8.5% at June 2014.

The investment requirements of the GTP are massive. Following the passing of Prime Minister Meles in August 2012, Prime Minister Hailemariam has reaffirmed the state-led model and the public investment plan embodied in the GTP. Developments in the first two years (2010/11–2011/12) of the GTP suggest that the required external financing is a challenge, and the investment drive in the priority projects through directed domestic credit is squeezing the availability of credit and foreign exchange for the rest of the economy. In addition, the overall revenue-to-GDP ratio is below the regional average and falling (see Table 5 below). The investment climate is poor: the Doing Business ranking fell from 111 to 124 over the past year (World Bank).

The GoE borrowing strategy continues to be to maximize external concessional loans from multilateral and bilateral sources with a minimum grant element of 35 percent, to limit semi-concessional borrowing only to finance investments by the public enterprises in the priority sectors, and to use domestic borrowing to cover residual financing needs (MTDS 2013-17).

Ethiopia remains at low risk of external debt distress (IMF Article IV consultation 2013). However, there has been a rapid growth of credit to public enterprises to finance major investments in dams, factories, and housing construction. The net worth of the government is, thus, heavily exposed to the direct borrowing by these enterprises and contingent liabilities stemming from such lending by CBE and NBE. MoFED is planning a high-level oversight mechanism to monitor the operations and fiscal position of public enterprises (IMF Article IV Consultation 2014).

Growth has been inclusive. Ethiopia's public sector-led development strategy has contributed to considerable poverty reduction and progress toward achieving the Millennium Development Goals (MDGs). The Government has maintained a high level of pro-poor expenditure, averaging more than 12 percent of GDP over the past decade. Ethiopia is ranked 173rd out of 187 countries in the UNDP Human Development Index, but there has been significant progress in key human development indicators: primary school enrolment has almost quadrupled, child mortality has been cut by almost one third, and the number of people with access to clean water has doubled. The poverty headcount (percentage of adults with income less than ETB 1,975/year) has fallen from

³ World Bank (2013) Ethiopia Economic Update II: Laying the Foundation for Achieving Middle Income Status, June, and Central Statistical Agency (2012 projection).

⁴ WB Country Brief 2010

38.9% in 2004 to 29.6% in 2011, and is currently estimated at 26%.⁵ The level of income inequality has not changed, however. The Gini coefficient has remained around 0.3 since 1995/96.

Table 2.1 Main Social Indicators (2010-2013)

INDICATORS	2010	2011	2012	2013
Primary school gross enrolment (%)			95.4	
Life expectancy at birth (years)	61.5	62.3		
Under-five mortality rate (per 1000 live births)		88		
Access to improved water sources (rural areas, %)		39		
Poverty headcount (%)		29.6		Est. 26

Source: MoFED/UN (2013) Assessing Progress towards the Millennium Development Goals

Table 2.2 Basic Macroeconomic Data (2009/10-2012/13)

INDICATORS	(2009/10)	2010/11	2011/12	2012/13
GDP at factor cost (Real annual change)	10.6	11.4	8.8	9.7
Inflation (consumer prices, end of year, %)	7.3	38.1	20.8	7.4
Current account balance in % of GDP (after grant)	-4.4	-0.7	-6.5	-5.4
External debt in % of GDP	20.1	26.1	21.3	24.3

Source: World Bank Economic Update no. 3

PFM Reforms

All government reforms, at all levels, are planned and managed within the GTP, the overall national plan and common framework for development and achievement of the MDGs in Ethiopia. The GTP (2010/11-2014/15) was issued in November 2010. The GTP's objectives are to: (i) attain high growth within a stable macroeconomic framework; (ii) achieve the MDGs in the social sector; and (iii) establish a stable democratic and developmental state.

The GTP addresses issues relating to public financial management (PFM), including (at the federal level): enhancement of tax administration and collection with focus on the presumptive tax system, tax audit and VAT; increasing the share of expenditure to pro-poor sectors; institutionalizing systems that ensure transparency and accountability, with focus on access to information,

⁵ MOFED (2013) Development and Poverty in Ethiopia 1995/96 – 2010/11, June, and interview with Director, Development Planning and Research Directorate, MOFED. The MDG target for poverty headcount is 22.2% by 2015.

complaints handling, pre-notification of service requirements, and disclosure of public information; enhancement of public participation in government planning, monitoring and evaluation through community-based organizations; enhancement of civil servants' knowledge and application of laws and regulations; and strengthening financial audit.

Further details of the reform program are provided in Section 4.

2.2 Budgetary outcomes

Table 2.3 Federal Government Budget Outcomes (2020/11-2012/13)

	2010/11		2011/12		2012/13	
	ETB millions	% of GDP	ETB millions	% of GDP	ETB millions	% of GDP
Total Revenue	76,768	15.2	96,180	13.0	109,747	12.9
Own revenue	55,335	10.9	79,372	10.7	89,395	10.5
Grants	21,433	4.2	16,808	2.3	20,352	2.4
Total Expenditure	85,158	16.8	120,002	16.2	138,212	16.2
Non-interest expenditure	83,154	16.4	117,600	15.9	136,177	16.0
Interest expenditure	2,004	0.4	2,402	0.3	2,035	0.2
Aggregate deficit (incl. grants)	8,390	1.7	23,822	3.2	28,465	3.3
Primary deficit	6,386	1.3	21,420	2.9	26,430	3.1
Net financing	11,451	2.3	11,963	1.6	19,450	2.3
External						
Domestic	-3,061	-0.6	11,859	1.6	9,015	1.1
GDP	505,646	100.0	738,605	100.0	852,740	100.0

Sources: Budget and actual cash flows are from the respective final accounts for FY 2010/11, 2011/12 and draft accounts for FY 2012/13, with the following adjustments to a GFS presentation: (1) external assistance (grants) are treated here as revenue rather than financing; (2) repayments of government loans (code 1505) and privatization proceeds (code 1504) are treated as domestic financing rather than revenue; (3) public debt repayments (all of code 450 except interest on 451-02 and 452-02) are treated as negative domestic financing rather than expenditure. Expenditure above includes interest and externally financed expenditure, so the totals do not agree with the calculations for PI-1 and 2. GDP data are from National Economic Accounts Directorate, MoFED.

Table 2.4 Actual Budgetary Allocations by Economic Classification

Actual Budgetary Allocations by Economic Classification (as % of total expenditure)			
	2010/11	2011/12	2012/13
Current expenditure	46.7	52.2	41.0
Wages and salaries	6.8	7.0	6.3
Goods and services	6.3	6.2	6.7
Interest	2.4	2.0	1.5
Grants (subsidy) to Regions	30.4	35.9	38.1
Other (unclassified)	0.8	1.1	0.9
Capital expenditure	53.3	47.8	46.6
Total expenditure (ETB millions)	85,158	120,002	138,212

Source: Budget and actual expenditure are from the respective final accounts for 2010/11 and 2011/12 and draft accounts for 2012/13. Fixed assets and construction (code 63) has been re-classified from recurrent expenditure to capital expenditure, per GFS. Wages and salaries is the total of code 61, and goods and services is the total of code 62.

'Other payments' (code 64) has been divided between interest, grants to Regions, and Other (unclassified). Grants to regions includes the MDG Grant.

Table 2. 5 Actual Expenditure by Functional Classification

Actual Expenditure by Functional Classification (as % of total expenditure)			
	2010/11	2011/12	2012/13
General public services	3.8	4.3	4.2
Justice and security	2.9	3.1	3.0
Defense	7.1	7.7	7.2
Agriculture and rural development	4.0	4.3	2.2
Mining and construction	20.0	20.2	19.5
Trade and industry	0.3	0.2	0.3
Transport and communications	1.9	1.3	1.1
Water and energy	2.0	3.0	3.7
Health	1.0	1.0	1.0
Education	15.1	15.8	16.5
Subsidy to regions	39.7	37.0	39.5
Other	2.2	2.0	1.7
Total	100.0	100.0	100.0

Source: Government Accounts Directorate, MoFED (per Annex 5) and Team calculations

It can be seen that, while there has been rapid growth in revenue and expenditure aggregates, as a proportion of GDP, revenue is falling, both from external grants and own revenue, while expenditure is being contained. It should be remembered that these data cover only the central government, while a high proportion of expenditure is incurred from central grants to the regions and districts, so the changes in the economic and functional shares shown above are less meaningful.

2.3 Legal and Institutional Framework

Legal framework

Ethiopia has established a strong legal framework with the aim of managing public resources efficiently and effectively. Legislative acts are termed Proclamations. The Constitution and principal Proclamations and Directives are as follows:

- Constitution of the Federal Democratic Republic of Ethiopia (1994)
- Proclamation on the definition of power and duties of the executive organs (04/1995)
- Financial Administration Proclamation No. 57/1996
- Council of Ministers' Financial Regulations Nos.17/1997 and 190/2010
- Proclamation establishing the Office of the Federal Auditor General No. 68/1997
- Proclamation on the establishment of Ethics and Anti-corruption Commission (235-2001)
- Proclamation Determining Procedures of Public Procurement and Establishing its Supervisory Agency No. 430/2005
- Federal Public Procurement Directive, MOFED, July 2005
- Financial Administration Proclamation No 648/2009, August 6, 2009
- Procurement and Property Administration Proclamation No. 649/2009, Sep 9, 2009

- Office of the Federal Auditor General Establishment (Amendment) Proclamation - Proclamation No. 669/2010
- Council of Ministers Regulation to provide for the distribution of profit of public enterprises (Regulation No 107/2004)
- Public Enterprises Proclamation No. 25/1992
- Budget Proclamation 766/2012 for FY 2012/13

Legislation to be adopted

- Revision of the Financial Administration
- Establishment of National Accountancy Body

Institutional framework

Following four years of transitional government, a federal republic was proclaimed after the first-ever national elections held in May 1995. The Constitution adopted in December 1994 includes a framework for establishing a decentralized, democratic, federal system of government as well as state ownership of land, while recognizing user rights and leasing of land. The Constitution guarantees important fundamental rights and freedoms of the population, including equality of all people before the law, prohibition of all discrimination on grounds of gender and equality of access to economic opportunities, including the right to equality in employment-related matters. It separates the legislative, executive and judicial powers and underlines the importance of cultural identity through the fundamental equality of languages.

Eleven regions, including the two urban regions of Addis Ababa and Dire Dawa, constitute the federal units. With the exception of the Southern Nations, Nationalities & Peoples Region (SNNPR), which includes 45 of the country's 65 ethnic groups, most regions are fairly homogeneous. Under the Constitution, the regions have very extensive economic autonomy and judicial powers.

Ethiopia is a federal parliamentary republic. Executive power is exercised by the government, headed by a Prime Minister, while legislative power is vested in the Parliament. There are nine ethnically-based administrative regions and two self-governing administrations - the capital city Addis Ababa and Dire Dawa. The total numbers of public institutions are around 166 at federal level, 404 in 11 regional states/two city administration level, and over 19,635 at woreda (district) level.

The President of Ethiopia is elected by Parliament for a six-year term. The Prime Minister is designated by the party in power following legislative elections. Since 1991, Ethiopia has been ruled by the Ethiopian People's Revolutionary Democratic Front (EPRDF). The Council of Ministers consists of the Prime Minister, the Deputy Prime Minister, various Ministers and other members as determined and approved by the House of Peoples' Representatives, a total of 20 members.

The Federal Parliamentary Assembly has two chambers: (1) the House of People's Representatives has 547 members, elected for five-year terms in single-seat constituencies, of whom, at the time of the assessment, 545 were from the ruling party and its allies: and (2) the House of the Federation with 110 members, one for each nationality, and one additional representative for each one million of its population. It is the upper house of the Parliamentary Assembly and controls the distribution of the Federal subsidy to the regions.

The Judiciary is more or less independent of the Executive and the Legislature. The President and Vice President of the Federal Supreme Court are recommended by the Prime Minister and appointed by the House of People's Representatives; for other federal judges, the Prime Minister submits candidates selected by the Federal Judicial Administrative Council to the House of People's Representatives for appointment.

Key features of the Federal PFM system

MoFED plays the key role in financial planning, budget preparation, execution and control. It is structured into directorates and offices under a Minister and three State Ministers (see organization chart at Annex 4). Following parliamentary approval of the annual budget, the Treasury Directorate manages the allocation of cash within approved budgets to 155 budgetary institutions (BIs, also called public bodies). Each BI is responsible for management of its finances and ensuring that all revenue and expenditure is received and paid in accordance with the Proclamations and central directives. Tax revenues are assessed and collected by the Ethiopia Revenue and Customs Authority (ERCA). All receipts and payments flow through a single Treasury Account, with few exceptions, mainly donor projects. Payroll and procurement are decentralized to the BIs. Procurement is regulated and supervised by the Public Procurement and Property Administration Agency (PPA). Internal audit units are established in all BIs and report to the heads of the institutions, and are supervised by an Inspection Directorate in MOFED. Independent external audit is provided by the Office of the Federal Auditor General (OFAG), which reports to Parliament.

3. Assessment of the PFM Systems, Processes and Institutions

This chapter briefly explains each of the 31 indicators, the actual situation at the time of the assessment, how this relates to the PEFA Framework and its requirements for scores of A, B, C or D, and the assessed scores.

Where an indicator has more than one dimension, the dimensional scores are combined by one of two methods. Method 1 (M1) is used where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions, so the overall score is determined by the score of this 'weakest link'. A plus sign is added where any of the other dimensions is scored higher than the weakest link. On indicators where a low score on a dimension does not necessarily undermine the impact of higher scores on other dimensions, the dimensional scores are averaged (M2 method). The average of all possible combinations of scores is provided by a table in the PEFA Blue Book.

The method of combining scores (M1 or M2) is shown in the summary box of each multi-dimensional indicator.

3.1 Budget credibility

The budget is the Government's statement of policies for the coming year and their revenue and expenditure consequences. The credibility of the statement is assessed by comparing actual out-turns with the original budget. The adjusted budget is not counted, as the original approved budget is the more important base for assessing credibility. Indicators PI-1 and 2 examine the credibility of the expenditure budget, while PI-3 examines the credibility of the revenue budget. PI-4 provides a check that the reported expenditure data does not omit significant arrears. PI-1 and 2 use expenditure data from the accounts for the past three years 2010/11, 2011/12 and 2012/13. The PEFA Framework allows debt service payments and externally funded project expenditure to be

omitted from budget and outturn data as these items are not normally under the control of the host government: this makes the comparison fairer to the government.

PI-1 Aggregate expenditure out-turn compared to original approved budget

Annex 5 shows that aggregate expenditure exceeded the original budget by 8.2% in 2010/11 and by 3.1% in 2011/12. In 2012/13, on the draft accounts that are not yet audited, expenditure was 1.1% below the budget. These variances result in a score of A, an improvement since the 2010 assessment.

The largest variances were in 2010/11 (EFY 2003). Though recurrent expenditure was 2.4% below budget, capital expenditure was 20.5% over budget, funded mainly from additional revenue and external borrowing. For the functional breakdown of the variance each year, see PI-2 (i) below.

Table 3.1 PI-1 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-1	B	A	In no more than one year has the actual expenditure deviated from budget by more than 5%	The average variance is reduced from 11.6% (FY 2008/09) to 4.1% (FY 2012/13). ⁶

PI-2 Composition of expenditure out-turn compared to original approved budget

Where the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level. In the Federal Government budget and accounts, there is an administrative classification, with organizations classified into four broad functional groups: administrative and general, economic, social, and other, then into 20 'sub-functional' heads (see PI-5). Annex 5 shows the original budgets and actual out-turns for each of these heads.

The method of assessing this indicator changed in 2011. Allowance is now made for any change in the total resource envelope, which is equal to the total actual expenditure. Budgets are adjusted by the ratio of the actual resource envelope to the budgeted resource envelope.⁷ Variances are then measured against these adjusted budgets. It should be made clear that the term 'adjusted budget' is a PEFA term, and has no reference to federal adjusted budgets, which may be quite different.

Annex 5 also shows the functional breakdown of the variance after adjusting budgets proportionately for the actual resource envelope (recurrent and capital together).

(i) Extent of the variance in expenditure composition during the last three years

⁶ In the 2010 assessment, the variances were 8.1, 4.1 and 22.7% (this last year used different data in the 2010 assessment, which cannot be traced). In this assessment the variances are 8.2, 3.1 and 1.1%.

⁷ On the principle that the original budget was an optimal budget in which expenditure on all heads had equal marginal benefits.

Annex 5 shows that the variance in expenditure composition was 9.6% in 2010/11, 11.4% in 2011/12, and 7.0% in 2012/13. This results in a score of B, against a score of C in the 2010 assessment. The 2010 assessment was re-worked using the new method (see Tables 6-9 at Annex 5), and it would still be scored C, so there has been a real improvement since 2010. The preparation of medium-term framework, the fiscal calendar and strategic plans has contributed to the predictability and administration of the budget and pro-poor spending. Lately, a program budgeting manual has been finalized, piloted, and implemented at the federal level.

The year showing the highest composition variance is 2011/12. Even though the new method allows for the additional resources made available, described under PI-1, there was still a high variance in most heads.

ii) *The average amount of expenditure actually charged to the contingency vote over the last three years*

A second change made in 2011 was the separation of the contingency budget and actual contingency expenditure, which is made the subject of a new dimension ii. It is good practice to charge contingency expenditure to the benefiting heads, and to transfer the budget also to the benefiting heads. This is largely done in the Federal Government, resulting in a score of A on dimension ii.

Table 3. 2 PI-2 Results

Indicator	Score 2010	Score for 2010 on new basis	Score 2014	Justification	Performance change
PI-2	C+	C+	B+	M1	
(i)	C	C	B	Variance exceeded 10% in no more than one of the last three years	Improvement in budget credibility
(ii)	NA	A	A	Expenditure charged to the contingency vote was less than 3% of the original budget	No change

PI-3 Aggregate revenue out-turn compared to original approved budget

Domestic revenue is forecast by the Macroeconomic Policy Directorate, MOFED, in collaboration with the Ethiopian Revenue and Customs Authority (ERCA) and with the agencies that collect non-tax revenues. This exercise is part of the preparation of the Macroeconomic and Fiscal Framework (MEFF), a five-year framework that is rolled forward each year. The Directorate uses the IMF Financial Programming model, customized for Ethiopia. The challenge is the reliability of the input data. The main parameters are nominal GDP (obtained from the National Accounts Directorate, MOFED), imports and exports (from the National Bank of Ethiopia), exchange rates, and inflation (Macroeconomic Policy Directorate).

Over-optimistic projection for 2009/10 led to a much more cautious projection for 2010/11, when actual revenue exceeded the target by 14.4%. This was partly due to computerization in ERCA administration and the introduction of a new windfall tax, which were not taken into account in the forecast. Since then revenue estimates have been closer. In 2010/11, revenue exceeded target by 0.7%, and in 2012/12 it fell short by 5.8%, due to a slowdown in economic growth. These variances result in a score of B, the same as in the 2010 assessment.

Annex 6 shows the breakdown of budgeted and actual revenue. Privatization proceeds (sale of equity (SOE)) and repayments to the GoE of loans are omitted, as these are financing items under IMF-GFS classification rather than revenue. It can be seen that all revenue items were underestimated in 2010/11. In 2011/12, tax revenues overall were close to achieving the target, while non-tax revenues exceeded the budget by 17.9%, largely because investment income was under-budgeted by 54.6%. In 2012/13 tax revenues were 12.8% below target, but were again rescued by non-tax revenues, which exceeded the budget by 73.2%, largely again because of under-budgeting of investment income

It should be noted that the method of scoring PI-3 was also changed in 2011. Since then, over-collections are also penalized, though not as much as under-collections. However, this makes no difference to the score for 2010, which would still be B under the new method.

Table 3.3 PI-3 Results

Indicator	Score 2010	Score for 2010 on new basis	Score 2014	Justification	Performance change
PI-3	B	B	B	Actual revenue collection was between 94% and 112% of budget in two of the last three years	No change

PI-4 Stock and monitoring of expenditure payment arrears

The Federal Government has a long tradition of fiscal discipline and for many years salaries, other expenditures and loan repayments have been paid on time. Unpaid bills for goods and services received before the end of the EFY (Ethiopian Fiscal Year), mainly capital expenditures, are paid within the 30 days (grace period) from July 7 to August 6. As expenditures are counted on an accrual basis, they are already recorded in the year's expenditure: the grace period is a device to ensure that the unspent cash is earmarked for payment over the first month of the following year and charged against the previous year's budget, and not returned to the Treasury. Any cash balance which is not paid against approved bills by August 6 is transferred back to the Treasury. All the operations are carried out through the IBEX system. No recurrent payables or arrears were identified.

(i) Stock of expenditure payment arrears

As can be seen from the table below, grace period expenditures for the last three years (EFY 2003-2005 or FY 2010/11-2012/13) that may have included arrears were relatively low at the end of the EFY (less than 2% of total expenditure) and were almost all paid by August 6. The Chamber of Commerce confirms that late payment is not an issue.

Table 3.4 Grace Period Payments

GRACE PERIOD PAYMENTS (In million of ETB and in % of total expenditures)

	2010/11	2011/12	2012/13
1. Expenditures not paid at the end of the EFY (July 7)	263.97	1,738.40	320.78
(As a % of total expenditures)	0.3%	1.4%	0.2%
2. Payments made by the end of the grace period (August 6) including funds returned to the treasury	262.52	1,736.64	277.25

Source: Treasury Directorate. There is an unexplained difference between the above figures and the Accounts.

(ii) *Availability of data to monitor the stock of expenditure payment arrears*

Goods and services received before the end of the fiscal year are accrued as 'grace period payables'. The financial report as of July 7 shows the grace period payables and subsequent financial statements show any unpaid balance of grace period payables. In practice, any unpaid balances from the grace period payables are refunded to the Treasury by 30 August. From account 5001 (in the IBEX system) it is possible to see whether all payments have been made by August 6. Any amount not paid by that date is in arrear so arrears are clearly identified by the system.

Table 3.5 PI-4 Results

Indicator	Score 2010	Score 2014	Justification for score	Performance change
PI-4 (M1)	A	A		No change
(i)	A	A	The stock of arrears is low (below 2% of total expenditure)	No change. There are no arrears and these are not a systemic problem
(ii)	A	A	Reliable and completed data is generated by routine procedures at the end of each year and no ageing is required	No change

3.2 Comprehensiveness and transparency

PI-5 Classification of the budget

The classification system used for formulation, execution and reporting of the central government budget.

The same chart of accounts is used for formulating the budget and for reporting during the year and the annual financial statements.

Revenue is classified according to the international 1986 GFS standard (tax revenue, non-tax revenue and capital revenue), though with three exceptions: (1) privatization proceeds (sale of SOE equity) are treated as capital revenue, rather than a financing item; (2) repayments of principal on loans made by the GOE (code 1505) are also treated as capital revenue, rather than a financing item; (3) external assistance (donor grants) are treated as a financing item, rather than revenue.

The expenditure budget is broken into four parts: (1) recurrent; (2) capital expenditure from Treasury revenue; (3) capital from external assistance (grants); and (4) capital from donor loans. Secondly, there is an administrative classification, with organizations classified into four broad functional groups: administrative and general, economic, social, and other. These groups are then classified into 22 'sub-functions', which broadly align with the international COFOG classification at the *main* function level (10 main functions, 3-digit level), but not the 69 sub-functions (4-digit level).⁸ Since 2011/12, the expenditure budget has been classified into programs, which correspond to important medium-term objectives of their organizations. For example, within the Ministry of Education (Code 311), there is a program for higher education (311-02). It is possible that the programs could be classified into the 69 COFOG sub-functions by means of a bridging table, but this is not done, reportedly as IMF has not asked for it.

The budget and accounts also use two further classifications, though the printed budget does not present this detail: (1) *area of expenditure* (personnel = 61, goods and services = 62, fixed assets and construction = 63, and other payments = 64. The latter includes grants and subsidies, investments, debt service, contingency and pension payments); and (2) *line items*, which analyze areas of expenditure in more detail, e.g., salaries to permanent staff are coded 6111. These two classifications constitute an economic classification that is broadly compliant with the IMF-GFS classification, except that public debt principal repayments are treated as expenditure rather than negative financing.⁹

All expenditure is classified by jurisdiction (i.e., Federal Government, region/city administration, zone and woreda) and source of finance.

Table 3. 6 PI-5 Results

Indicator	Score in 2010	Score in 2014	Justification for Score	Performance change
PI-5	B	B	Budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.	No change in score, but there has been a major reform in introducing program budgets, though these are not used to classify expenditure by COFOG sub-function, so the score remains at B.

PI-6 Comprehensiveness of information included in budget documentation

In order for the legislature to carry out its function of scrutiny and approval, the budget documentation should allow a complete overview of fiscal forecasts, budget proposals and results of past fiscal years.

⁸ See IMF-GFS Manual 2001, p.76.

⁹ It appears that highly concessionary loans in the past have been treated as grants and taken to revenue, so the logic is to treat their repayment as expenditure. Neither treatment complies with IMF-GFS standards.

This indicator is assessed on the latest budget documentation, which is for 2013/14. The budget documentation¹⁰ as submitted to Parliament (budget estimates) is shown in Table 8.

Table 3. 7 Information in 2013/14 Budget Documentation

INFORMATION IN BUDGET DOCUMENTATION FOR 2013/14		
Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the very least.	Yes	Volume I for budget 2013/14 includes assumptions on GDP growth, inflation, foreign currency requirement, currency depreciation, deficit financing and tax revenue. ¹¹
2. Fiscal deficit.	Yes	<i>Ditto</i> ¹²
3. Deficit financing	Yes	<i>Ditto</i>
4. Public debt stock	No	The budget document only shows the budget loan and principal and interest repayments as part of expenditure budget, not the debt stock
5. Financial assets	No	--
6. Prior year's budget outturn (2011/12), in the same format as the budget for 2013/14	No	Volume I of the budget document for the FY 2013/14) provides the 2011/12 outturn only in aggregate.
7. Current year's budget outturn (2012/13), in the same format as the budget for 2013/14	No	The estimated outturn for revenue for 2012/13 is included but neither the estimated outturn for expenditure nor the revised budget. The expenditure outturn for FY 2012/13 covers 9 months from July 7, 2012 to 8 April, 2013.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	<i>Ditto</i>
9. Explanation of the budget implications of new policy initiatives. ¹³	Yes	<i>Ditto</i>

¹⁰ The budget documentation has three volumes. All are prepared in Amharic. Volume I is a summary which is presented to the Parliament. Volume II is a program budget by ministry. Volume III is a detailed budget for revenue and expenditure.

¹¹ Six years data (2007/08 – 2012/13 on inflation, GDP, revenue and expenditure outturns and reserves are presented in the budget document.

¹² The deficit for the FY 2013/14 was ETB 33,175 million. The financing of the deficit was planned to be from foreign project loan (ETB 11,039 m), from PBS (ETB 5,442 m), HIPC debt relief (ETB 98 m) and local borrowing (ETB 16,598 m).

¹³ GTP was introduced two years ago and its implications for the budget were addressed together with other issues including MDG priorities in the 2013/14 budget.

Proportion of above information contained in the budgetary documentation published most recently by the central government.

The most recent budget documentation of EFY 2006 (2013/14) fulfils five of the nine information benchmarks.

Table 3. 8 PI-6 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-6	A	B	Five of the nine benchmarks are met. The revised budget for the previous year (2012/13) and the actual outturn for 2011/12 are missing in the budget document, in the same format as the budget for FY 2013/14.	No real change. The 2010 assessment appears to have been over-scored. In fact, there is an overall improvement including the introduction of program budgeting, though this is not counted in the scoring.

PI-7: Coverage of government operations

Fiscal information such as the budget, execution reports and financial statements should include all budgetary and extra-budgetary activities in order to allow a complete overview of revenues, expenditures and public financing.

(i) *Level of extra-budgetary expenditure (not including project expenditures financed by donors) that does not appear in fiscal reports.*

The budget and accounts, both in-year and annual, include many autonomous bodies, which are listed in each year's accounts. According to MoFED there are no autonomous bodies omitted from the accounts. Public enterprises are excluded from the budget and accounts.¹⁴

However, there are several funds that are established under their own laws and managed by their respective boards. They report to the Council of Ministers and to Parliament without any scrutiny from the Federal Government. Their budgets are not included in the Federal budget, their bank balances are not brought within the Treasury Single Account, and their accounts are not included in the budget execution reports or the annual financial statements though this is required by Financial Administration Proclamation, Article 16. There is no reason why their budgets and accounts should not be included for information purposes, without any infringement of their autonomy. The GAD intends to establish a system by end 2016 to include information on these government operations in the regular fiscal reports.¹⁵ At the time of this assessment, they count as unreported government operations.

A list of the extra-budgetary funds is presented in the table below.

¹⁴ There are no 'Whole of Government' accounts, including all public enterprises controlled by the Government, as required by the IPSAS standard. (This has not been achieved by most developed countries either).

¹⁵ MOFED (2012) MOFED's Reaction on PEFA 2010 and CPAR Assessments

Table 3. 9 Extra-budgetary Expenditure (2011/12 and 2012/13)

	(ETB millions)	
	2011/12	2012/13
Road Fund	1,369	1,370
Social Security Agency Fund	20	15
Oil Stabilization Fund	450	-
Industrial Development Fund	526	24
Sugar Development Fund	1,900	2,080
Total fund expenditure	4,265	3,489
Total expenditure	120,002	138,212
Funds expenditure as a % of total expenditure	3.6%	2.5%

Source: Treasury Directorate

As can be seen from the above table, fund expenditure as a percentage of total Federal Government expenditure was about 3%. There may also be some retention and non-reporting of university income due to inconsistencies between the Federal Finance Proclamation and the Higher Education Proclamation.¹⁶ The Federal Auditor General reported on the 2011/12 accounts that there was ETB 138.6 million unreported revenue from 18 entities, mainly educational institutions.

(ii) *Income/expenditure information on donor-funded projects that is included in fiscal reports.*

The chart of accounts differentiates between external assistance (grants, Codes 2000- 2999) and external loans (codes 3000-3999). External assistance and loans are also classified by donor. For each group of donors (IFIs, bilaterals, UN, etc) there is a directorate or office (see MoFED organization chart at Annex 4). A differentiation is also made on how the funds reach the beneficiaries. Channel 1 funds are provided to MoFED and from MoFED flow to sector ministries, which budget the spending of these and report the spending. They are therefore fully accounted. Channel 2 funds go directly to the implementing agencies, but are now fully reported to the budget and accounts offices. Channel 3 funds are mainly to donor-managed projects and NGOs, so are outside the purview of MoFED. No data are collected on these funds. It is estimated by Accounts Directorate that 90% of all external assistance is included in the budget and in the accounts, though no evidence for this has been shown.

Table 3. 10 PI-7 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-7	D+	D+	M1	
(i)	D	B	The level of unreported expenditure is in the range 1-5% of total expenditure	Improvement. Reduction in the % of expenditure by the extra-budgetary funds
(ii)	B	D	Complete information for an estimated 90% of expenditure on donor-funded projects, except for inputs given in kind, is claimed, but this could not be substantiated.	The 2010 assessment assumed that more than 50% of Channel 3 funds were reported. No real

¹⁶ Training Strategic Action Plan, para.56.

				change in performance.
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PI-8 Transparency of Inter-Government Fiscal Relations

The federal system of government in Ethiopia gives substantial political, administrative and fiscal powers and autonomy to sub-national governments. The regional states consist of 815 woredas (districts) and 133 urban administrations, which are the main units of local government. The local governments decide how to spend their revenue for providing basic services. Based on the principles of fiscal federalism, transfers are made from the federal to the Regional Governments and from the Regional Governments to woredas through a system of non-earmarked block grants. Regional states obtain most of their financial resources from these transfers. The regions and woredas decide how to allocate and use the funds in their jurisdictions. Each regional state has its own constitution, and resident constituents elect members of the legislative council, from which the regional state president is appointed. Council members are elected at federal, regional, woreda/city, and kebele levels.

(i) *Transparent and rules based systems in the horizontal allocation among sub-national governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)*

Transfers from the Federal Treasury to the regions comprise (1) an annual allocation from the MoFED block grant, (2) a 50% share of business income tax and 30% of indirect taxes collected by the Federal Government on behalf of the regions, and (3) MDG capital grants. This indicator applies to all three, weighted as necessary.

(1) The **Federal Subsidy** (grant) to each of the nine regions and Dire Dawa city administration¹⁷ is a block (unconditional) grant disbursed in monthly installments by the Federal Treasury. The subsidy can be used for any sector and for capital or recurrent, as each Regional Council determines. In total (the vertical allocation), the subsidy is determined each year through the MEFF process, which is finalized and approved by the Council of Ministers in February.

The Constitution mandates the House of the Federation (which includes regional representatives) to make the horizontal allocation of the Federal Subsidy, based on a formula that is fixed every three years. The House of the Federation employs university experts to assist in the calculation. The formula takes into account each region's need (assessed on population, level of development, distance from the centre, etc). The higher the need, the greater the percentage share. To avoid any tendency to dependence, the formula also encourages greater mobilization of own revenue. The more revenue the region can generate, the greater the percentage share. A third factor is external aid. As donors focus on particular regions, equity requires the horizontal allocation to take into account the different amounts of aid received by each region.¹⁸

¹⁷ The Addis Ababa City Administration does not receive any share of the subsidy, as it is self-sufficient from its own revenues.

¹⁸ The calculation uses budgeted aid. As actual donor disbursements may not match the budgets, adjustments are negotiated between individual regions and the center the following year. This reduces transparency but promotes equity. Donor desire for additionality may conflict with this equity principle. Since funds channelled via NGOs are not subject to offset, donors may prefer NGOs as implementation agents in appropriate areas where they could potentially add value and ensure additionality, e.g community development.

Regional BOFEDs should be able to reliably predict the amount of subsidy they will receive, as it is a simple percentage of the vertical allocation, which is known in February, before they issue their own Budget Guidelines, at least until the last year of each formula determination. The block grant to Oromia, for instance, is at present 32.5% of the total block grant each year. Oromia BoFED provides data for the calculation of the percentage every three years. It is disbursed in 12 equal monthly installments, in the first week of each month. Though the BoFEDs provide the data for calculation of their percentage shares, it appears that they are not able to make the calculations themselves, or they prefer to wait until the amount is intimated following approval of the Federal budget in June. The final amount may vary due to a change since February in the total available for block grants: the percentage shares of the total do not change. The disbursements are very predictable.

The present percentage shares are shown in the table below.

Table 3. 11 Block Grant Distribution

	Name of Region	Percentage
1	Tigray	7.18
2	Afar	3.15
3	Amhara	23.17
4	Oromia	32.50
5	Somali	8.14
6	Benishangul Gumuz	2.10
7	Southern Nations Nationalities and Peoples	20.10
8	Gambella	1.50
9	Harari	1.00
10	Diredawa City	1.16
	Total	100.00

Source: Budget Proclamation 2013/14

(2) The **sharing of revenues** is transparent as it is based on the relevant tax laws. The division of taxes and revenues between the Federal Government and Regional Governments, as prescribed in the Constitution, is summarized in the table below.

Table 3. 12 Summary of Sources of Revenue and Sharing

Federal Government Revenues Constitution, Article 96	<ul style="list-style-type: none"> • Customs duties, taxes, and other payments levied on imports and exports • Taxes on the incomes of Federal Government employees, and local employees of international organizations • Taxes on Federal Government enterprises • Taxes on the proceeds of national lotteries and related ventures • Rental incomes from Federal Government houses and properties • Federal license fees • Income from Federal monopolies • Federal Government stamp duties
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Regional Government Revenues Constitution, Article 97	<ul style="list-style-type: none"> • Taxes on incomes of regional and private sector employees • Fees for usufructuary land rights (Land Use Tax – both urban and rural) • Taxes on the incomes of private and unincorporated farmers • Taxes on the profits of resident merchants • Sales tax/turnover tax • Water transport fees within the region • Rental incomes on Regional Government houses and properties • Taxes on Regional Government enterprises • Regional license fees • Royalties on the use of forest resources
Revenues shared between the Federal and Regional Governments Constitution, Article 98	<ul style="list-style-type: none"> • Taxes on jointly-owned enterprises • Taxes on corporation profits and shareholder dividends • Taxes on large scale mining, petroleum and gas operations

VAT, which was introduced after the Constitution was written, is shared between the federal government and the regions as follows:

- VAT assessed on incorporated bodies with a head office in Addis Ababa is assigned to the Federal Government;
- VAT assessed on incorporated bodies with a head office in a Region is split between the Federal and Regional Governments in the ratio 70 Federal: 30 Region;
- VAT assessed on sole traders is assigned to the Region in which the trader is based.

(3) There are also **MDG grants** to regions that are earmarked, to approved capital projects in the five MDG sectors (agriculture, health, education, water and roads), amounting to ETB 20 billion in 2011/12 and ETB 15 billion in 2012/13. The total MDG grants each year are allocated by MoFED to regions using the same block grant formula, so they are also rules-based and transparent.

The amounts provided in 2012/13 are shown in the table below.

Table 3. 13 Transfers from Federal Government to the Regions in 2012/13

Transfers from Federal Government to the Regions in 2012/13		
	ETB millions	%
1. Block grant to regions	35,556	53.7
2. Shared revenues – tax on income and profits (50%) - indirect taxes (30%)	9,718 5,893	14.7 8.9
3. MDG capital grants	15,000	22.7
Total	66,167	100.0

Source: Budget 2012/13

(ii) *Timeliness of reliable information to sub-national governments on their allocations from central government for the coming year*

As explained above, regional BoFEDs should be able to reliably predict the amount of subsidy they will receive as it is a simple percentage of the vertical allocation, which is known in February, before they issue their Budget Guidelines. MoFED informs the regional BoFEDs of the indicative amount in March/April, and the final amount at the end of May or early June.

(iii) *Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories*

According to the Proclamation, BoFEDs (regional finance offices) report to MoFED quarterly on their expenditure. As the federal subsidy is not ring-fenced, but goes into the same bank accounts as other revenues, it is not possible to report the expenditure from the subsidy alone, and the reports cover all expenditure. Reports follow the standard chart of accounts used throughout all levels of government, including the sectoral classification. This data is consolidated into general government reports by the Accounts Directorate, classified by function, program and accounts code, and published quarterly.

Table 3. 14 PI-8 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-8	B+	A	M2	
(i)	A	A	The horizontal allocation of all transfers is determined by transparent and rules-based systems	No change
(ii)	B	B	Regional Governments are provided reliable information ahead of completing their budget proposals	No change
(iii)	B	A	Fiscal data is collected from all regions and consolidated into quarterly and annual reports within 10 months of the end of the fiscal year.	Improvement

PI-9 Oversight of aggregate fiscal risk from other public sector entities

(i) *Extent of central government monitoring of AGAs and PEs*

Autonomous government agencies, other than some extra-budgetary funds (see PI-7 i), are monitored through the integrated budget and expenditure information system (IBEX).¹⁹ Public enterprises are monitored mainly by their supervisory ministries, except for 41 SOEs scheduled for privatization that are monitored by the Privatization and Public Enterprise Supervising Agency (PPESA). According to PPESA, these 41 are self-financing (the summary of their financial statements has not been seen). After a 5% transfer to a legal reserve, their profits are divided, 40%

¹⁹ AGAs include CSA, ERCA, Road Fund Office, Civil Service College, PPESA, universities, etc. They are listed as reporting units in an annex to each year's financial statements.

going to Federal Revenue, and 60% pooled in the Industrial Development Fund.²⁰ This fund is used to finance major new projects, which are appraised and approved by PPESA. PPESA receives the audited accounts of all 41 PEs. About 10 PEs got clean audit reports last year, 29 got qualified reports and the auditors disclaimed giving an opinion for two PEs.

In 2010, there were about 130 non-financial PEs under PPESA. Responsibility for most of these has been transferred to their respective ministries, and their present number is not known. Their audited accounts have not been seen by the Assessment Team and it appears that they are not received and reviewed by MOFED. Their reliability has also been questioned²¹.

According to the Medium Term Debt Strategy, external debt of SOEs has risen to ETB 3,429 million (8.7% of GDP) at July 2012, mainly debt to foreign banks and suppliers, and mainly by Ethiopia Electric Power Company (EEPSCO), Ethio-Telecom and Ethiopian Airline. Their average time to maturity was 4.7 years, and average interest rate 1.8% over LIBOR and EURIBOR.²² Domestic borrowing of SOEs has also risen sharply. Net credit expansion (through loans and corporate bonds) from the Commercial Bank of Ethiopia (CBE) to SOEs in the 10 months up to April 2013 accounted for 3% of GDP. In addition, they borrowed from the Development Bank of Ethiopia (DBE) and through bond issues for the construction of the Renaissance Dam, which is estimated by the authorities to cost 10 percent of 2012/13 GDP and is intended to be financed entirely domestically. EEPSCO is undertaking several large investment projects. Most rely on external assistance and loans (both concessional and non-concessional). The Ethiopian Railway Corporation recently signed contracts with Chinese and Turkish companies for projects whose total size is more than US\$3 billion, or 6 percent of 2012/13 GDP. The telecommunications company signed two agreements with Chinese providers for a total of US\$1 billion in equipment (IMF October 2013).

IMF staff report that comprehensive public sector data, including on public enterprises, are still lacking and would be desirable for a proper assessment of public sector finances. Some of the large public investment projects by state-owned enterprises could pose risks to Ethiopia's public debt sustainability. MOFED intends to monitor the overall debt (both external and domestic) of the consolidated public sector through a high-level mechanism.

(ii) *Extent of central government monitoring of sub-national government's fiscal position*

Regions have hitherto had balanced budgets and could not generate deficits. Some regions now have borrowing powers. For instance, the Oromia State Government may borrow from domestic sources with authorization by the Regional Council (Financial Proclamation 156/2010, Article 39). They can also identify external sources of loan and ask the Federal Government so the latter may secure the loan agreement for the benefit of the region. MoFED monitors overall debt against the

²⁰ Council of Ministers Regulation to provide for the distribution of profit of public enterprises (Regulation No 107/2004).

²¹ Public Enterprises Proclamation 25/1992 requires SOEs to keep books of account following generally accepted accounting principles (GAAP). However, there is no requirement for SOEs to prepare financial statements in compliance with IFRS or for their auditors to comply with IAS. Without definition of standards, interpretations of GAAP can vary widely. As to audits, the Proclamation states that the provisions on powers, duties and liability of auditors in the Commercial Code shall apply. The Commercial Code does not require auditors to comply with any defined auditing standards. In the absence of a strong professional body and specifically dedicated institutions, OFAG regulates the accounting profession. The activities of OFAG in regulating the profession include licensing of all auditors in the country, issuing a Code of Ethics for Professional Accountants, and taking disciplinary measures on proven acts of misconduct by professional accountants (ROSC 2007).

²² MoFED (2012): Ethiopia Medium Term Debt Strategy 2013-2017, October

Medium Term Debt Strategy, but does not formally assess and consolidate annually the fiscal risk arising from regional operations.

Table 3. 15 PI-9 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-9	C+ ↑	C	MI	
(i)	C ↑	C	Most major AGAs/PEs submit fiscal reports to central government (MOFED and sector ministries) at least annually, but a consolidated overview of fiscal risk is missing	No change in score yet.
(ii)	A	C	The net fiscal position is monitored annually but there is no consolidated overview.	Change in legal framework allowing regional debt, but Guidelines and monitoring procedures not yet established.

Planned reform

The Medium Term Debt Strategy 2013-17 intends to set up a quarterly and annual monitoring system.

PI-10 Public access to key fiscal information

Transparency depends on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest groups.

Table 3. 16 Public Access to Information

Number of the required elements of information to which the public has access	
Information benchmark	Full compliance?
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	No. The budget law is published and available only after it is approved by Parliament. The public cannot obtain a set of budget documentation when it is submitted to Parliament. Later, it is posted on the MoFED website (www.MoFED.gov.et)
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	No. Quarterly budget execution reports are not consolidated and posted on the MoFED website.
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Yes. The annual financial statements are issued in hard copy to Ministry offices, Parliament and libraries within six months of completed audit.
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes. Audit reports (in Amharic) from the OFAG are posted on the OFAG website (www.ofag.gov.et) within six months of completed audit
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	No. Contract awards are not yet posted on the PPA website (due to technical problems) or otherwise made available to the public.
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with	Not applicable as the Federal Government is not managing any primary service units.

national coverage in at least two sectors (such as elementary schools or primary health clinics).	
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Table 3. 17 PI-10 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-10	C	C	The Government makes available to the public two of the applicable five elements of information.	The speech of the Auditor General is now posted. No change to the score.

3.3 Policy-based budgeting

PI-11 Orderliness and participation in the annual budget process

Budget preparation is governed by the Constitution and the Financial Administration Proclamation of 2009. Responsibility for budget preparation lies with the Budget Directorate, based on a macro-economic and fiscal framework (MEFF) prepared by the Macro-Economic Policy and Management Directorate. The MEFF is a rolling five-year projection of available resources (revenues, external assistance and loans), a projection of aggregate expenditure requirements, a determination of how the gap is to be closed, and the setting of broad sectoral ceilings, including the regional subsidy. The MEFF is then detailed into a three-year Medium-Term Expenditure Framework (MTEF), which sets expenditure ceilings for each budgetary institution (BI). The ceilings for years two and three are indicative. The MEFF and MTEF have to be submitted to the Council of Ministers for approval by January 31.

(i) *Existence of and adherence to a fixed budget calendar*

Table 3. 18 Budget Calendar

Cycle/Part/Stage	Responsible institutions	Gregorian Calendar
<i>Planning Cycle</i>		
1. Macro Economic & Fiscal Framework (MEFF)	MOFED, ERCA, NBE, Council of Ministers	July 8 – November 10
1.1 Preparation of MEFF	MOFED, ERCA, NBE	Not later than October 26
1.2 Approval of MEFF	Council of Ministers	October 27 – November 10
2. Public Expenditure Requirements preparation (PER)	MOFED and BIs	November 11 – February 8
2.1 PER Call letter	MOFED	November 25
2.2 Submission of PER	BIs	Not later than December 25
2.3 Review and finalize PER	MOFED	December 26 – February 8
3. Notification of 3 year block grants to regions	MOFED, House of the Federation	November 25
4. Prepare and finalize annual fiscal plan	MOFED and BIs	January 24
<i>Budget Cycle</i>		
A. Executive Preparation & Recommendation of Budget		
1. Budget preparation	BIs	Not later than February 8
2. Notification of annual subsidy budget	MOFED	February 8
3. Issue Budget Call	MOFED	February 8
4. Submit budget requests	BIs	Not later than March 22
5. Preparation of draft recommended budget	MOFED	March 23 – May 22
6. Budget Recommendation	Council of Ministers	May 23 – June 2

B. Legislative Approval		
7. Approval and appropriation of the budget	House of Peoples' Representatives	June 8 – July 7
C. Executive Implementation		
8. Notification of approved budget	MOFED	July 8 – 15
9. Receipt of approved budget and changes to action plans and financial plans	BIs	July 16 – August 16
10. Implementation of approved budget	BIs	July 8 to July 7 of next year

Source: Budget Directorate, MoFED,

The Budget Circular is issued by February 8. The calendar is treated seriously by BIs, and most (80%) submit their estimates on time (March 22), that is within seven weeks. There are currently 155 BIs. The Budget Directorate finalizes the budget and submits it to the Council of Ministers by May 22 (actually May 23, 2013 for 2013/14).

(ii) *Guidance on the preparation of budget submission*

The Budget Circular (guideline) contains the ceilings for recurrent and capital expenditures agreed by the Council of Ministers. The guideline is comprehensive and clear. A new manual has been prepared to support the program budget preparation, and guidelines for action planning and quarterly performance reporting.

(iii) *Timely budget approval by the legislature*

In the last three years, the budget has been approved before the start of the Ethiopian Financial Year (July 8).

Table 3. 19 PI-11 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-11	A	A	M2	
(i)	A	A	A clear annual budget calendar exists, is generally adhered to, and allows BIs enough time (7 weeks) to meaningfully complete their estimates on time	No change (despite the added complexity of program budgeting)
(ii)	A	A	A comprehensive and clear Budget Circular is issued to BIs which shows the ceilings previously approved by the Council of Ministers	No change
(iii)	A	A	Parliament approves the budget before the start of the year, for the last 3 years	No change

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

(i) *Preparation of multi-year fiscal forecasts and functional allocations*

The MTEF is a three-year framework covering functional/sectoral allocations, which is rolled forward each year, based on the GTP and sectoral strategies. Each year, adjustments are made for changes in prioritization, organizational structure (changing ministerial responsibilities), business

processes, outputs (demand and executing capacity) and prices. While the GTP and sectoral strategies are fixed-period programs (mostly five years), MTEFs are annual and constrained by the MEFF resource projections. MTEFs are policy-based and connect the medium term to the annual budget preparation exercise.

The MTEF was not in place at the time of the 2010 assessment, the MEFF being the only medium term framework.

(ii) Scope and frequency of debt sustainability analysis

The Debt Management Directorate undertakes annual debt sustainability analysis. The IMF also undertakes annual debt sustainability analysis jointly with the World Bank in agreement with the Government, using its own estimates of GDP, etc. It uses the Low Income Country DSA Framework and covers both external and domestic debt. IMF has recently reported that there is a low risk of external debt distress, but that a projected increase in domestic borrowing would raise the total public debt/GDP ratio from 39.6% in 2013 to 54.1% in 2023 (baseline scenario) (IMF Article IV Consultation, October 2013).

MOFED has issued a new Public Debt Strategy (October 2012) that compares alternative strategies and makes recommendations on the preferred strategy that would maintain current debt sustainability. At the time of the 2010 assessment the annual DSA excluded domestic debt, which is now included.

(ii) Existence of costed sector strategies

All major sectors have costed strategies. For instance, the Education Sector Development Program IV, covering the five years 2010/11 – 2014/15, estimates its cost at ETB 140.6 billion, of which ETB 100.2 billion is recurrent expenditure. However, it does not appear that the program was designed within the MEFF projections. In the first three years (2010/11-2012/13) it was planned to spend ETB 77.4 billion, while the total budgets for these years (which were constrained within the resource envelope) were only ETB 40.3 billion and actual expenditure was ETB 37.8 billion. The plan is roughly double the resources allocated to education.

(iv) Linkages between investment budgets and forward expenditure estimates

Budget estimates cover both recurrent and capital expenditure, and the Budget Guideline requires BIs to include the recurrent expenditures that will result from completion of capital assets. Nevertheless, there appears to be widespread under-budgeting of operating and maintenance costs, which are counted as ‘consumption’ and minimized to free more resources for capital construction. There is little awareness of the productivity of maintenance expenditures, and their relevance to achievement of MDGs.

Table 3. 20 PI-12 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-12	C↑	B	M2	
I	C↑	A	Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification)	Improvement due to the introduction of the MTEF, which projects

			are prepared for at least 3 years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.	functional/sectoral allocations within the resource envelope established by the MEFF.
ii	C	A	Debt sustainability analysis is undertaken annually, covering domestic debt as well as external debt.	Improvement due to inclusion of domestic debt in the annual DSA
iii	C	C	Sector strategies are prepared for several sectors but are inconsistent with aggregate fiscal forecasts	No change
iv	C	C	Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates in only major cases	No change

3.4 Predictability and control in budget execution

PI-13: Transparency of taxpayer obligations and liabilities

(i) Clarity and comprehensiveness of tax liabilities

The Ethiopian Revenue and Customs Authority (ERCA) was established by Proclamation in 2008. ERCA has a head office and 30 branches (19 in Addis Ababa and 11 in the Regions), and around 9,000 staff.

The tax laws are as follows:

- Income Tax Proclamation No. 173/1961, as amended by Proclamation No. 286/2002 for taxes on income and profits;
- Proclamations No. 30/1992, No. 107/1994 and No. 286/2002 for income tax on employment;
- Proclamations No. 77/1997, No. 152/1978 and No. 8/1995 for rural land and agricultural activities income tax;
- Proclamation 286/2002 for rental income tax;
- Proclamation No. 286/2002 for unincorporated business;
- Proclamations No. 36/1996 and No. 286/2002 as amended for incorporated business;
- Proclamation No. 286/2002 for capital gains tax;
- Proclamations No. 68/1993 and No. 285/2002 for value added tax (VAT) on goods and services;
- Proclamations No. 68/1993, No. 77/1997, No. 149/1999 and No. 307/2002;
- Income Tax Regulation No. 78/2002;
- Excise Tax Proclamation No. 307/2002;
- Turnover Tax Proclamation No. 308/2002;
- Proclamation on Customs 622/2009.

Further regulations have been introduced through the Tax System Reform Program to cover the introduction of new computerized techniques such as point-of-sale (cash register) data collection, biometric registration, online declaration, etc. All tax laws and regulations are posted on the ERCA

website. In general the current rules and regulations are comprehensive and clear. A recent issue on the taxation of retained earnings has been resolved. Private sector representatives complain that the influx of new and detailed regulations is a challenge, even for tax professionals. The Amharic version of the tax regulations is said to be not sufficiently clear. However, changes in the legal framework are designed in consultation with stakeholders.

ERCA is undertaking a complete overhaul of tax procedures, with technical assistance from IMF.

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Information on tax liabilities and administrative procedures for taxpayers is provided by ERCA and all its branches via:

- television and radio programs, documentary films, question and answer programs;
- brochures, pamphlets, flyers, monthly bulletins;
- discussion forums, training, meetings with Chambers of Commerce;
- the ERCA website;
- telephone calls for arrears; and recently
- 8199 call center.

ERCA aims to enhance the awareness of taxpayers and thereby encourage voluntary compliance, improve taxpayer relations, increase taxpayer registration, and improve taxpayer participation and partnership. Private sector representatives complain that ERCA response is slow and attribute this to lack of capacity, but confirm that ERCA is coming closer to taxpayers, e.g., by regular quarterly meetings, and improving taxpayer relations and compliance. It should be remembered that the private sector is only two decades old.

(iii) Existence and functioning of a tax appeals mechanism

Ethiopia has a three-tier system to resolve tax disputes. In the first tier, a taxpayer has 10 days to appeal against an assessment. The appeal is addressed to the ERCA branch office responsible. Each branch office has an Appeal Committee. Within a given financial threshold, the Appeal Committee considers the case and makes its recommendation to the Branch Manager. If the taxpayer is not satisfied with the branch decision, s/he can appeal within 30 days to the Tax Appeal Commission (TAC). 50% of the assessment has to be paid up front pending resolution. This deters frivolous objections, but may prevent small and medium enterprises making genuine objections.

The TAC is a body appointed by the Ministry of Justice. It comprises a minimum of three judges, appointed from ERCA, the Chamber of Commerce and the Ministry of Justice, and a secretariat. Members from MoFED and the Ministry of Trade and Industry are also appointed. There are three hearing benches a week. The TAC has the authority to confirm, reduce, or annul any assessment appealed against. Prior to the first hearing of the appeal, a memorandum of appeal is served to ERCA by the TAC and ERCA submits its reply. The burden of proving that an assessment is excessive or that a decision of ERCA is wrong lies on the person objecting to the assessment or decision.

A party dissatisfied with the decision of the TAC can appeal to the competent court of appeal on the ground that it is erroneous on any matter of law within 30 days. The court of appeal hears and determines any question of law arising on appeal and after reaching its decision returns the case to the TAC. An appeal to a higher court of appeal from the decision of the lower court of appeal may be made by either party, within a further 30 days.

During 2012/13 the proportion of cases decided in favor of ERCA (conviction rate) was 90.3 %. The high rate of conviction, and the inclusion of the revenue authority in the judicial process, raises doubts about its fairness and independence. According to the Chamber of Commerce, there are many irregularities in tax settlements.

Table 3. 21 PI-13 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-13	B+	A	M2	
(i)	B	A	Legislation and procedures for most taxes are comprehensive and clear, with limited discretionary powers of the revenue authority	Progress in the tax environment
(ii)	A	A	Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on tax liabilities and procedures, and the revenue authority supplements this with taxpayer education campaigns	Continuing development of taxpayer awareness, including a dedicated call number for advice.
(iii)	B	B	A tax appeals system of transparent administrative procedures is functional, but there are issues on its fairness.	No change

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system

Under the current taxpayer registration system, every taxpayer should have a Taxpayer Identification Number (TIN). The TIN program was introduced in 2002. By the time of the 2007 PEFA assessment the coverage of the TIN was quite advanced and by the time of the 2010 assessment had been fully implemented nationwide. Implementation was further facilitated in November 2009 when the TIN system was incorporated into ASYCUDA++ under which trade taxes are assessed (i.e., importers must have TINs).

Since the 2010 assessment, the TIN system has been automated through the development and deployment of a fingerprint system at a national level. From the beginning of the project to July 2012 a total of 1.9 million fingerprints had been collected and 1.2 million biometric identification cards had been printed and distributed by Addis Ababa and Regional Revenue Authorities, and TINs prepared through the new automated fingerprint identification system (AFIS) and card production facility (CPF) introduced into the Standard Integrated Government Tax Administration System (SIGTAS). As of July 2012 a total of 992,398 taxpayers had received TIN certificates in this way.

It is not possible to get a trade license, or to form a company, without a TIN, thus providing a

checkpoint. Another check point is the requirement to have a TIN in order for businesses to obtain electronic cash registers, whereby VAT and turnover tax generated through sales is automatically deposited in MoFED's account. Registration for VAT already required a business to have a TIN, but small businesses with turnover below the VAT threshold are now captured through the cash register system. The total number of taxpayers using cash registers linked to ERCA at the time of the assessment was 45,367, covering 50,607 cash registers.

A recent block survey of a market area in Addis Ababa identified many traders without licenses: 8,000 new taxpayers were registered. This demonstrates that the taxpayer database still does not cover all potential taxpayers.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

Penalties are levied according to the law for non-compliance with registration and declaration requirements. However, penalties are waived if taxpayers quickly pay past tax due and associated interest. The incentive for complying with the directive is the avoidance of heavier (due to accrued interest) penalties down the road; the quicker people pay, the greater the proportion of waiver.²³ The Government's revenue ends up being higher than in the absence of such a penalty waiver scheme. As a result of the directive, 80-90% of penalties are waived on payment of tax liabilities. No data have been seen by the team but, as the arrears collection ratio is high (see PI-15 i), it appears that the penalties provide a sufficient incentive for payment of arrears, though not payment on time, and that revenue would be lower without them.

(iii) Planning and monitoring of tax audit and fraud investigation programs

While it is known that tax evasion is widespread, efforts to counter it continue, principally by improved tax audit and enhanced taxpayer compliance. The tax and duty audit procedures have been aligned with the database systems (SIGTAS, and ASYCUDA++). ERCA uses a Tax Audit Manual and a Post-Clearance Audit Manual. An annual plan is prepared by branch managers in collaboration with head office, based on 43 risk-based criteria. 92% of domestic tax revenues are from large taxpayers and medium taxpayers. The tax audit program is monitored to relate the number of days spent on tax audits to the additional revenue assessments made. In 2012/13, 169 auditors generated ETB 8,436 million additional revenue, a very high return on investment (ETB 50 million per auditor). Extensive recruitment of young graduates has been undertaken over the last two years and training provided in order to strengthen ERCA capacity (GOE GTP Progress Report 2011/12). Representatives of the private sector say that desk audits and the documentation requirements are an issue.

Table 3. 22 PI-14 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-14	B	B	M2	No change
(i)	B	B	Taxpayers are registered in a complete database with some	No change Some improvement due to

²³ Under the directive a payments plan is agreed between ORA and the taxpayer, usually with a time limit (1 - 6 months). Payments of arrears are made on a monthly basis and the sooner the payment is made the higher the rate of the penalties waiver (from 20 % up to 100%). If tax liabilities are paid within one month the probability of a penalty waiver is 100%, if within 2 months up to 80 % waiver, depending on the reasons forwarded by the taxpayer for not complying. SIGTAS is programmed to administer these waivers.

			linkages to trade licensing and company registration systems	introduction of biometric fingerprinting and cash register system. However, linkages to all other government registration systems and financial sector regulations are not yet comprehensive and therefore not all potential taxpayers are routinely captured in the tax net.
(ii)	B	B	Penalties exist but are not always effective	No change
(iii)	B	B	Tax audits and fraud investigations are managed and reported on according to a documented audit plan with clear risk assessment criteria	No change

PI-15 Effectiveness in the collection of tax payments

(i) Collection ratio for gross tax arrears

From the SIGTAS database, arrears can now be identified and calculated. These are significant. Arrears at the end of 2012/13 were ETB 2,856 million, which was 3.8% of total tax collections for the year. The data for the last two years is shown in the table below.

Table 3. 23 Collection of Tax Arrears (ETB millions)

	Tax and interest arrears at beginning of year (A)	Penalty arrears at beginning of year (B)	Total arrears at beginning of year (C=A+B)	Collections during year (D)	Collections and waived penalties (E)	Debt collection ratio (D/A)
FY 2011/12	1401	1145	2546	1106	2251	78.9%
FY 2012/13	890	504	1395	821	1325	92.2%
Average of last two years						85.6%

Source: ERCA

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

Taxes and duties have to be paid by certified check at any of the ERCA branches or a branch of the CBE. Each ERCA branch has an account at NBE. CBE branches transfer revenue to these accounts, from which MoFED makes transfers to the Treasury Central Account. A percentage of revenue is retained by ERCA for possible refunds. The Chamber of Commerce complains that VAT refunds

are often delayed. Revenues collected by ERCA can take up to a week to reach its account in NBE (IMF 2011).

(iii) *Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury*

The PEFA Framework requires two kinds of reconciliation. There is a monthly reconciliation of revenue collected by the branches with the amounts credited to the Treasury Account within 15 days of the end of the month. This is done. However, no reconciliation of opening arrears, assessments, penalties, collections, waivers and closing arrears has been seen by the Assessment Team.²⁴

Table 3. 24 PI-15 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-15	NS	D+	M1	
(i)	NS	B	Tax arrears are significant, and the average debt collection ratio for the last two years was between 75 and 90%.	Improvement in availability of data to score this dimension.
(ii)	A	B	Revenues collected by ERCA are transferred to the Treasury within a week.	Apparent deterioration of performance (or (ii) may have been overscored in the 2010 assessment).
(iii)	D↑	D	Reconciliation of receipts, but not of opening and closing arrears.	No change.

PI-16 Predictability in the availability of funds for commitment of expenditures

Effective execution of the budget in accordance with the work plans requires that the budgetary institutions receive reliable information on availability of funds within which they can commit expenditure for recurrent and capital inputs. This indicator assesses the extent to which MOFED provides reliable information on the availability of funds to BIs that manage administrative (or program) budget heads in the Federal Government Budget and therefore are the primary recipients of such information from MoFED.

(i) *Extent to which cash flows are forecast and monitored*

On approval of the annual budget, each BI prepares a forecast of its monthly cash requirements. For the first month the Treasury releases one twelfth of the recurrent budget of each BI. For subsequent months, the BI should submit a request by the 10th of each month to meet its needs for the following three months, together with copies of the payroll, procurement plan status, and

²⁴ Opening arrears in 2012/13 of ETB 1,395 million (Table 14), plus assessments during the year (unknown), minus collections (ETB 75,911 million, as per Annex 6), minus any write-offs and waivers (unknown), should equal closing arrears (ETB 2,856 million).

commitments, to justify its request. Separate requests are made for recurrent and capital expenditure and separate ceilings are issued. Most of them (90-95% says Treasury Directorate) submit their requests on time. The Treasury processes requests, gets the approval of the Minister, and notifies each BI of its zero-balance ceiling by the 5th of the month.

(ii) Reliability and horizon of periodic in-year information to BIs on ceilings for expenditure commitment

As described above, BIs get monthly releases (overdraft ceilings for their zero bank balance accounts) and can rely on the indicative amounts for subsequent months. BIs may plan beyond the three month horizon, but cannot be sure they will be able to meet forward commitments. Treasury, however, were not aware of any inability to fund budgeted allocations in recent years, due to improvements in cash management and use of Treasury bills and loans where necessary.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of BIs

In-year adjustments by Parliament in 2012/13 were made only once through a supplementary appropriation. This is required only where there is a proposed increase in aggregate spending. However, MoFED has discretion on reallocations among ministries and programs, within the approved total expenditure. These transfers are made frequently (1,137 budget supplements in 2011/12), but with some transparency. Transfers within programs are authorized at the level of the budget institution. Transfers between programs require MoFED approval. According to Budget Directorate, these transfers are all requested by the respective budget institutions, and are usually allowed, especially to ensure that development projects can progress. There are no numbers available on the number of budget transfers which are decided above the level of budget institutions, but they appear to be frequent, the frequency having increased from the situation at the time of the 2010 assessment.

Table 3. 25 PI-16 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-16	B	C+	M1	
(i)	B	A	A cash forecast is prepared for the year and updated monthly	Improvement in cash forecasting since 2012/13
(ii)	B	B	BIs are provided reliable information on commitment ceilings at least quarterly in advance	No change
(iii)	B	C	Significant in-year budget adjustments are frequent, but undertaken with some transparency	Some deterioration since 2010

PI-17 Recording and management of cash balances, debt and guarantees

Debt management, in terms of contracting, servicing and repayment, and the provision of government guarantees, are often major elements of overall fiscal management. Poor management of debt and guarantees can create unnecessarily high debt service costs and significant fiscal risks. The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits, such as accurate debt service budgeting, timely service payments and well planned debt roll-over.

(i) *Quality of debt data recording and reporting*

The Debt Management Directorate of MOFED uses UNCTAD's Debt Management and Financial Analysis System (DMFAS) to record and manage both domestic and external debt. The present software is version 5.3: an upgrade to version 6 has started. The system covers: (1) loans contracted between external creditors and MOFED; (2) government-guaranteed external debt (loans and supplier credits contracted by public enterprises, mainly the Ethiopian Electric Power Corporation (EEPSCO), Sugar Corporation, Ethiopian Railways Corporation, Ethiopian Shipping Lines and guaranteed by MOFED as well as the state-owned bank, the Commercial Bank of Ethiopia (CBE); (3) non-guaranteed external loans contracted by public enterprises, mainly the Ethiopian Airlines (EAL) and Ethio-Telecom, without government or government-owned bank guarantee; and (4) domestic debt of the federal government in the form of government bonds, treasury bills and direct advances from the NBE.

All debt agreements are registered. Debt balances are reconciled with creditors at least quarterly. Reconciliation with WB/IDA data is done on receipt of each disbursement using the World Bank Client Connection facility. The African Development Bank (ADB) provides monthly statements of disbursements and balances, which are used to reconcile with DMFAS data. The Directorate provides annual letters to creditors' auditors confirming their balances. There is no criticism of the debt data, except that the IMF notes that only external debts of major public enterprises are captured, and that comprehensive public sector data, including all public enterprises, are still lacking and would be desirable for a proper assessment of public sector finances (IMF October 2013, and see PI-9 (ii)).

The Directorate issues a semi-annual bulletin, which is posted on the MOFED website.²⁵ This covers debt service, debt stock and operations. Since the last assessment a medium-term debt management strategy has been designed and approved, debt data recording and reporting has improved, and debt portfolio and risk analysis has been introduced. Ethiopia has received its first sovereign credit rating (Moody's, B1), and it is planned to issue a 10 year sovereign bond on the international bond market through three selected banks.

(ii) *Extent of consolidation of the government's cash balances*

Cash management is the responsibility of the Treasury Directorate, MOFED. A Treasury Single Account (TSA) system has been started with the aim of reducing idle cash in the various government accounts and improving the quality of fiscal reporting. At present, it pools most government bank balances (including all Federal Government) through zero balance accounts. BIs are allowed to write checks up to their monthly limits, and the resulting overdrafts are cleared to the Treasury Central Account at the close of each working day. The TSA does not (yet) include the balances held by the extra-budgetary funds, public enterprises, foreign embassies, or ring-fenced donor project accounts.

(iii) *Systems for contracting loans and issue of guarantees*

All requests for loans and guarantees, both domestic and external, have to be approved by MoFED, and authorized by the Council of People's Representatives. This applies to all Channel 1 and 2 inflows. Sector ministries cannot borrow directly: all agreements are made with MoFED, then on-

²⁵ The latest is Bulletin no. 11, covering 2008/09 – 2012/13, issued September 2013.

lent. This is enforced through bank regulation: a bank account for government funds cannot be opened without Treasury consent. The recent Medium Term Debt Strategy (MTDS) says that guidelines are to be issued, regulating the approval of loans and guarantees and extended to cover guaranteed and non-guaranteed loans to PEs (MoFED 2012).

Table 3. 26 PI-17 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-17	B↑	B	M2	
(i)	C↑	B	Domestic and foreign debt records are substantially complete, updated and reconciled quarterly, and comprehensive management reports are produced bi-annually	Improvement due to better debt recording and reporting and more frequent reconciliation with creditors
(ii)	B	B	Most cash balances are calculated and consolidated at least weekly, but some accounts remain outside the TSA	Improvement due to introduction of TSA system but no change in the score
(iii)	B	C	Contracting of loans is made within total limits, and loans and guarantees are subject to approval by MOFED	Improvement due to issue of MT Debt Strategy (Guidelines to come). 2010 assessment did not take into account the absence of guarantee limits.

PI-18 Effectiveness of payroll controls

The Federal payroll is decentralized to BIs. The Finance and Procurement Service Directorate of each BI has responsibility for payroll and uses Microsoft Access based payroll software. Each BI also holds a personnel database in the respective Administration Department. This is also Microsoft Access based. It is used to manage staff leave, performance appraisal and other basic HR activities.

Salary is transferred to the saving accounts of staff directly from the accounts of BIs by the 25th of the month. Payslips are generated from the payroll system and distributed monthly to staff. Newly recruited staff are paid in cash in their first month while they have not yet opened a bank account.

Attendance sheets are controlled by the various departments of the BI and transferred to the Human Resource Department on a weekly basis for review. Absenteeism will be followed up by the HRD unit and may lead to fines and termination of employment. HRD issues a letter to suspend salary payments for an employee absent from duty until a resolution is made. The Internal Audit Department (IAD) audits the attendance sheets and accounting records.

(i) *Degree of integration and reconciliation between personnel records and payroll data*

Since each BI is in charge of its payroll and corresponding personnel database, changes in the personnel of a BI (hiring, promotion, transfer, salary and benefit changes, dismissal, resignation, death) are notified to the Administrative Department (AD) by the employing department of the BI. The AD notifies the Finance Department and changes in the payroll database are made monthly on the basis of documentation provided. The personnel and payroll databases are not electronically linked. Prime documents for addition and update of personnel records for both databases are the same. It is expected under EMCP that the forthcoming application of IFMIS will enable a seamless link between the databases.

(ii) *Timeliness of changes to the personnel records and payroll*

The decentralized system of payroll preparation allows prompt adjustment of the payroll for any changes. Any change other than due to death has to be notified to the Administrative Department within 30 days. After death, the regulations require payment of salary to continue for three months. There is no evidence of retroactive adjustments.

(iii) *Internal controls of changes to personnel records and the payroll*

Changes in the personnel database located in the Administrative Department of the BI can only occur if documented by an official request of another department. Authorization for changes in the payroll database at the Finance Department can only be given by the accountant. Other users are limited to a read only access to the system. The payroll system does not generate exception reports and does not have an audit trail to record changes and who makes them.

(iv) *Existence of payroll audits to identify control weaknesses and/or ghost workers*

Payroll audit is carried out as part of the internal audit activities of the BI. The Auditor General also carries out audit of the payroll as part of its regular financial audit. In addition the Inspection Department makes occasional checks of controls in both the Administrative Department and the Finance and Procurement Service Directorate of each BI. Separate HR audit procedures include review of the payroll data to see whether they are in line with the HR records. Payroll audits check the consistency of the payroll database against the personnel database and records but not necessarily the physical existence of every person being paid.

Table 3. 27 PI-18 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-18	B+	B+	M1	
(i)	B	B	Personnel data and payroll data are not directly linked, but payroll changes are supported by full documentation and checked against the previous month's payroll data	No change
(ii)	A	A	Required changes to the payroll are made monthly, generally in time for the following month's payments. Retroactive payments are rare.	No change
(iii)	B	B	Authority and basis for changes to personnel records and the payroll are clear.	No change

Indicator	Score 2010	Score 2014	Justification	Performance change
(iv)	B	B	Payroll audits have been undertaken in all Federal BIs within the last three years.	No change

PI-19 Transparency, competition and complaints mechanisms in procurement

Background

More than 65% of the annual budget is spent through procurement, so an effective procurement system is critical for the success of the GTP. The Proclamation 649/2009 replaced Proclamation 430/2005 and re-established the Public Procurement and Property Administration Agency (PPA) as an autonomous Federal Government agency under the Minister of Finance.

The actual practice of procurement is decentralized to 166 BIs (public bodies or procuring entities). The main functions of the PPA are to regulate procurement in accordance with the Proclamation and a MOFED Directive of June 2010, and to build procurement capacity of all stakeholders – procurement units, members of Bid Approval Committees, senior officers of ministries and sector agencies, internal and external audit, and finance staff.²⁶ It does not participate in any procurement decisions itself. The Proclamation does not cover procurements by public enterprises or extra-budgetary funds, or procurements under external funding where the donor partner prefers to use different regulations. The PPA also regulates disposal of public properties (see under PI-20 (ii)).

Each BI is required to prepare and approve its annual procurement plan and send it (for information) to the PPA by August 6. The plans are not published, but each BI is required to publish intended individual procurements over the relevant thresholds (works: ETB 10 million, goods: ETB 3 million, consultancy: ETB 2 million, other services ETB 1 million). Each BI has a Procurement Unit, and a Procurement Endorsing Committee (Bid Approval Committee) of senior officers appointed by the head of the public body, which approves the bid documents before they can be issued, and the evaluation of bids before a contract can be given. The Procurement Unit acts as the secretariat to the Committee. All bidders are promptly notified of the results of the evaluation and have the opportunity to complain if they wish (see dimension (iv) below). MoH delivers a PowerPoint presentation to all bidders on bid evaluation results and the reasons why unsuccessful bidders lost and the successful bidder won. There is no publication of contract awards (bid winners), though this is planned.

Every BI is required to submit a quarterly report to PPA showing the value (but not the number) of all contracts given during the quarter, categorized by method of procurement. These data are entered into the PPA database. In 2012/13, 89.6% of the total value was reported as being through open bidding, 6.5% restricted bidding, 1.7% request for proposals, 0.4% request for quotation, and 1.8% under direct purchase (sole source). There is no verification of the data except indirectly through procurement audits. These are carried out by PPA so far as staff numbers and capacity allow. The PPA audits the procurements of all BIs at least once every two years. This is an in-depth audit of compliance with the Proclamation, Directive and standard documents and processes. Errors and irregularities are documented and reported back to the BI and to OFAG, and a summary sent to Parliament through MoFED. Corrective actions by each BI are checked in the next audit. PPA also

²⁶ A recent report on training needs in the Federal Government estimated the total number needing procurement training at 5,473 (Conducting an Assessment & Producing PFM Institutionalized Training Strategic Action Plan, Final Report, April 2013, under MOFED PBS II Project, by IPE Global and B&M Development Consultants).

meets quarterly with the Ethics and Anti-Corruption Commission and shares its reports.

The main issue in procurement is not the legal framework, which is based on international standards and is said to be widely understood, but the high turnover of procurement officers, due to low salaries and the lack of a procurement cadre with a promotion ladder. The demand for training is high and the PPA has been providing massive training through the EMCP and PBS programs, but there is also leakage to the private sector and into other (non-procurement) posts.

(i) *Transparency, comprehensiveness and competition in the legal and regulatory framework*

The requirements for the scoring of this dimension are listed in the table below, and whether the state of affairs in the last completed year (2012/13) meets the requirement.

Table 3. 28 Transparency in Procurement

Requirement	Federal Government practice in 2012/13
(i) The legal framework is organized hierarchically and precedence clearly established;	Yes. The Procurement Proclamation and Directive clearly establish the sole authority of the PPA on procurement by all the budgetary institutions listed in the budget each year.
(ii) It is freely and easily accessible to the public through appropriate means;	Yes. The Proclamation and Directive are posted on the PPA website (www.ppa.MoFED.gov.et)
(iii) It is applied to all procurement undertaken using government funds;	No. It applies to all central government procurements using national procedures, though not to the extra-budgetary funds, which are material.
(iv) Open competitive procurement is the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	Yes. Open bidding is the default method under Proclamation Section 33 (2), and other methods are defined clearly and have to be justified.
(v) It provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	No. Bidding opportunities are published in national newspapers. The law does not provide for publishing of procurement plans, but provides for the publishing of contract awards and complaints.
(vi) It provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes. There is an independent Complaints Review Board, and there is a 5 day window in which complaints can be made before the contract is signed.

Source: Public Procurement and Property Administration Process, MOFED

(ii) *Use of competitive procurement methods*

There are six methods described in the Proclamation: (1) open bidding (national or international); (2) request for (consultancy) proposals; (3) two-stage tendering; (4) restricted tendering; (5) request for quotation (RFQ); and (6) direct procurement (single sourcing). Open bidding is the default method (Proclamation sec. 33 (2)).

In the PPA annual report for 2012/13, which includes a summary of procurement audit findings, 26 out of 40 audited entities (65%) were identified as using non-competitive procurement methods that were not compliant with regulations (mainly using single sourcing). In the 2013/14 audit, this

percentage was reduced to 29% (15 out of 52 entities), representing a major improvement. The numbers refer to the number of procuring entities rather than the value of contracts placed, which is the valid figure in relation to the assessment of this dimension. The audits cover only 25% of the 166 BIs.²⁷

As noted in the background above, quarterly procurement reports submitted to PPA indicated use of open competition methods for 90% of procurement operations by value in 2012/13. Though not yet audited, these are based on a 100 percent sample of the 166 BIs.²⁸ Despite the high proportion of open competitive procurement claimed, there is a lack of reliable data.

(iii) Public access to complete, reliable and timely procurement information

There are four information elements required: (1) procurement plans; (2) bidding opportunities; (3) contract awards; and (4) data on resolution of procurement complaints. As described under dimension (i), bidding opportunities and contract awards are currently made available to the public, the latter only through posting on public notice boards due to technical difficulties with the PPA website (mainly a nationwide systemic issue rather than a PPA-specific issue, as indicated in the other PEFA assessment reports).

(iv) Existence of an independent administrative procurement complaints system

There is an independent complaints system, but the complainant has to submit the complaint first to the head of the BI (procuring entity). The Proclamation requires that the head answers within 10 days. If the complainant is not satisfied, the complainant can submit the complaint (within a further five days) to the Complaint Review Board (CRB), which is an independent body set up by the 2009 Proclamation. The CRB comprises a private sector representative (currently the Secretary, Ethiopian Chamber of Commerce), a representative of the Ethiopian Tourist Trading Enterprise, a senior officer of the procuring entity, the Deputy Director General of the Ethiopian Road Authority (ERA) and the Director General of the PPA. The PPA acts as secretariat to the CRB. It must meet within 15 working days of receiving the complaint. In the meantime, the procurement is suspended. In 2012/13, 101 complaints were received, but 25 of these were not in time and were returned. Of the remaining 76, 44 were decided in favor of the complainant, 2 were agreed between the complainant and the procuring entity before a decision was made, 9 were outside the jurisdiction of the Board (e.g., because they were subject to donor procurement regulations), and in 20 cases the procuring entity process and award were upheld. If the complainant is still not satisfied, the case can be taken to a legal court, but this appears to be unusual. No data are available. The number of cases going to the CRB is increasing over the past three years because of the greater publicity and awareness of the possibility of appeal.

The requirements for scoring this dimension and the present situation are shown in the table below.

²⁷ The April 2014 draft of this report indicated a D rating based on the 2012/13 PPA report, but the improvement noted in the 2013/14 PPA report (available to the team at the time of its second visit in October 2014) indicates a C rating.

²⁸ In addition, according to the 2012/13 report, 19 BIs had not prepared a procurement plan, 32 were not using standard bid documents, 13 exceeded the procurement approval threshold, 17 specified trade marks on bid specifications, 8 did not demand bid bonds, 13 did not respect the minimum bid preparation period, 3 did not open the tender on the declared opening date, 11 used evaluation criteria which were not indicated in the bid document, 5 made advance payments in excess of 30% of contract value, 17 did not maintain bid evaluation minutes, 17 did not write a letter to unsuccessful bidders, 13 entered into contractual agreements without allowing seven working days for complaints, and 18 did not procure according to the guideline. These irregularities reduce effective competition.

Table 3. 29 Procurement Review Requirements

Requirement	Present situation in Federal Government
(i) The review body comprises experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;	Met. The CRB includes members drawn from the private sector/civil society as well as from Government. All are said to be experienced in procurement (the Assessment Team did not assess their qualifications and experience).
(ii) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Met. The CRB is not involved in procurement processes, only on appeal.
(iii) does not charge fees that prohibit access by concerned parties;	Met. No fees are charged.
(iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Met. The process is defined by the Proclamation, which is on the PPA website, and is followed.
(v) exercises the authority to suspend the procurement process;	Met. The procurement process is suspended while the case is being adjudicated.
(vi) issues decisions within the timeframe specified in the rules/regulations; and	Not met in all cases. An estimated 30-40% of cases take longer than the statutory period (15 working days).
(vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Met. Decisions are binding on all parties (but do not preclude bringing a case to Court)

Source: Complaints Review Board

Table 3. 30 PI-19 Results

Indicator	Score 2010	Score 2014	Justification for score	Performance change
PI-19	NA	C+	M2	<p>Assessment method changed, so comparison not possible on basis of the scores.</p> <p>(i) Improvement. Legal and regulatory framework has strengthened through revised Procurement proclamation (2009) and associated Procurement Directive (2010), and through re-establishment of the PPA.</p> <p>(ii) Over 90% of procurement (by value) is conducted through open competition. The quality and availability of procurement performance data have strengthened considerably and procurement audits have been introduced. BIs are now routinely submitting quarterly procurement operations data to PPA. The PPA is now conducting procurement audits on all BIs at least once every 2 years.</p> <p>(iii) Improvement. As indicated under PI-10 in the 2010 assessment, contract awards were not being publicized. Bidding and contract awards are now in principle being publicized. Current technical difficulties with the PPA website represent a nationwide system problem and not a PPA-</p>
(i)	NA	B	Four of the listed requirements are met.	
(ii)	NA	D	Lack of data on the percentage of non-competitive contracts that are not compliant with regulations.	
(iii)	NA	C	At least 2 of the key procurement information elements are complete and reliable for government units representing 50% of procurement operations (by value) and made available to the public through appropriate means.	
(iv)	NA	B	The complaints system meets criteria (i), (ii) and four of the other five criteria	

				<p>specific problem, but contract awards are publicized through posting on public notice boards.</p> <p>(iv) Improvement. The 2009 Procurement Proclamation provided for an independent Complaints Review Board, which has since become operational.</p> <p>The main issue in procurement is the high turnover of procurement officers, due to low salaries and the lack of a procurement cadre with a promotion ladder</p>
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Planned reforms

It is planned to establish an Ethiopian Institute of Procurement and Asset Management (EIPAM) at the Civil Service University. The PPA is developing a program for the professionalization of procurement with DFID technical assistance and funding.

E-procurement is under study, and is already allowed by the 2009 Proclamation. Bidders will make their bids online.

PI-20 Effectiveness of internal controls for non-salary expenditure

In conformity with the PEFA methodology, this evaluation refers to internal controls for non-salary expenditures at the time of assessment (February 2014).

A number of regulations and internal control procedures have been developed and disseminated through EMCP projects including the following:

- Financial administration regulation by the Council of Ministers (Regulation 190/2010)
- Guideline/manual for the procurement of goods and services (2011)
- Manual for the administration of budget (2011)
- Manual for cash management (2011)
- Cash disbursement manual (2011)
- Accounting procedure (2011)
- Financial accountability (2011)
- Internal audit manual (2011)
- Internal control standards (2011)
- Property administration (2011)
- Handover procedure (2011)
- Procedure on guarantor (2011)
- Procurement (2010)

All executive officers, internal auditors and OFAG are responsible for ensuring that the internal controls are complied with.

In a recent study of PFM training needs, it was generally agreed by GOE officials that the PFM laws, proclamations, regulations, directives and procedures are sound, but that their implementation faces challenges. Though induction and refresher training is given, relevant officers do not properly understand the regulatory framework, and high turnover exacerbates the problem. The study also

stated that there are some instances of deliberate by-passing of directives. Procurement and property administration are major problem areas. Audit recommendations “are usually ignored”.²⁹

Compared with many other countries in Africa and elsewhere, corruption is not a major problem in Ethiopia. In May 2001 the GOE established the Federal Ethics and Anti-Corruption Commission, which is active. In 2013, the former Director General, Deputy Director General and 64 other staff of ERCA were prosecuted for corruption. Senior officers in Land Administration and the National Intelligence and Security Service have also been charged. The perception of corruption, based on an average of several surveys each year, is that it is slowly reducing, as shown in the table below.

Table 3. 31 Perception of Corruption (2010-2013)

Table 18: Perception of Corruption 2010-2013		
Year	Score	Ranking of Ethiopia
2010	2.7	116 th out of 178 countries
2011	2.7	120 th out of 182 countries
2012	33*	113 th out of 174 countries
2013	33	111 th out of 175 countries

Source: Transparency International CPI reports. * change of base of score

(i) *Effectiveness of expenditure commitment controls*

According to the Financial Administration Proclamation (2009) and Regulation (2010)³⁰, a BI cannot enter into an expenditure commitment without an approved budget and without “sufficient unencumbered (i.e., uncommitted) balance from the budget to discharge any debt” and without the approval of the head of the BI. In other words, approval of proposed expenditure commitments depends on whether the proposed expenditures are included in the approved budget, and, if so, if there is sufficient remaining uncommitted balance in the approved budget.

Each year, some expenditure heads overspend but it is not a systemic problem.³¹ The Financial Proclamation includes serious penalties for not complying with the rules.

The IBEX computer system does not control proposed commitments against the projected availability of cash, as derived by MoFED from the cash flow forecasts prepared by BIs (PI-16). It only monitors them, enabling the calculation of remaining uncommitted budget balance after a new commitment has been entered into the system.

Financial administration departments in BIs can, however, through their manual control processes, block proposed commitments that would result in monthly cash expenditure limits established for the next quarter being exceeded (PI-16, PI-17). They can also block proposed commitments that would generate payables in subsequent quarters not consistent with cash plans earlier agreed with MoFED (or they could suggest re-phasing of expenditure plans). Thus cash availability is taken into consideration, as well as unencumbered budget availability, in terms of controlling commitments.

²⁹ *Conducting an Assessment & Producing PFM Institutionalized Training Strategic Action Plan*, Final Report, April 2013, under MOFED PBS II Project, by IPE Global and B&M Development Consultants, para. 46.

³⁰ Financial Regulation 190/2010

³¹ In 2012/13 (EFY 2005), 14 heads overspent their adjusted budgets, viz. 140, 150, 152, 166, 211, 315, 371, 372, 373, 374, 382, 383, 387 and 463. Average overspend was 11.5%.

It may be the case that financial resource shortfalls result in cash not being available at the time of payment against commitments, but this is a predictability problem, that may impact on the allowable time horizon for commitments (the greater the unpredictability, the shorter the time horizon, resulting in a lower score for PI-16 ii) and may not be a commitment control problem *per se*. In this event, MoFED can work with BIs to determine the extent that expenditures can be rephrased/adjusted and/or the extent that cash balances can be drawn down,

In the case of GoE, financial resource predictability appears to be reasonably good (B rating under PI-3, A rating under D1 on budget support from DPs). Expenditure arrears are not a problem (A rating for PI-4), indicating effective commitment controls. Unpaid bills due to lack of cash have not been reported as a concern by the business community.³² It is expected that the introduction of IFMIS will automate the current partially manual commitment control processes.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures

Internal control procedures are comprehensive and include segregation of duties in the request, verification and approval of the movement of resources such as cash, supplies and properties. Payments are effected against approved payment requests and on verification against budget. Payments for the purchase of goods and services are supported by the appropriate documentation. A detailed procurement procedure and guidelines provide detailed guidance on procurement. There is also a comprehensive property administration manual. Annual stock taking is conducted for cash, supplies and properties and internal auditors observe the process. There is also a procedure regarding payments for overtime, per diem and wages to casual laborers. There is a procedure on the proper usage and control of vehicles and fuel and on vehicle maintenance.

Rules and procedures are relevant and well understood and available online in the website of MoFED³³. Rules and regulations are understood by internal auditors and OFAG through training programs,³⁴ as compliance check is part of the audit objective. Training courses on rules and procedures are often provided to staff. The implementation of the recommendations of the business process re-engineering (BPR) studies conducted during 2007 and 2008 and the implementation of balanced score cards (BSC) has improved controls as well as the efficiency of PFM processes.

The coverage of OFAG increased to 100% in 2012/13 from 51% in 2009/10. This has contributed to more understanding and awareness of rules and regulations in all BIs. However, according to audit reports by internal audit, OFAG and PPA, there are gaps in understanding of rules due to understaffing, employee turnover³⁵ and increased project activities.

(iii) Degree of compliance with rules for processing and registration of transactions³⁶

Audits conducted by OFAG, Internal Audit Departments, Inspection Directorate and Public Procurement Agency (on property and procurement), and the follow-up by heads of BIs, Inspection

³² Addis Ababa Chamber of Commerce.

³³ www.MoFED.gov.et

³⁴ Inspection Directorate, OFAG

³⁵ Turnover in the Federal Government in 2010 was 4.4%, which is far higher than the regional administrations (1.0%) or the SSA regional average (2.0-2.2%). World Bank (2013) Ethiopia Public Sector Reform Approach: Building the Developmental State – A Review and Assessment of the Ethiopian Approach to Public Sector Reform, table 10.

³⁶ Sources: General Accounts Department, Treasury Department, Budget Department, Inspection Department, OFAG

Department, MoFED and PAC, promote compliance with regulations on the processing and registration of transactions. PPA is providing training to BIs on public procurement procedures, mostly on request of the BIs themselves.

Nevertheless, OFAG reports continue to document many irregularities. The report on 2012/13 (the latest available) is summarized in the table below.

Table 3. 32 Irregularities reported by OFAG (2012/13)

Irregularities reported by OFAG in Report on 2012/13	
Cash shortage: ETB 1.2 million in five BIs	
Weak internal control on reconciliation of cash and bank accounts – in 24 BIs	
Unrecorded receivable – ETB 84 million, Abnormal balance – ETB 48 million,	
Long outstanding receivables in 77 BIs: ETB 877 million	
Uncollected revenue in 22 BIs: ETB 32 million	
Uncollected long outstanding revenue and penalty arrears: ETB 326 million in 5 BIs	
Unreported revenue (mainly from educational institutions): 5 entities, ETB 69.3 million	
Incomplete supporting documentation in 6 BIs : ETB 42.9 million*	
Incomplete supporting documentation for payment – ETB 202 million in 25 BIs*	
Not withholding tax from house allowance – ETB 1.5 million in 9 BIs	
Revenue collected not evidenced by Cash Receipt voucher – ETB 2.1 million in 6 BIs*	
For expenditures with no supporting documents: ETB 3.8 billion in 23 BIs. (Ministry of Defense – ETB 3.2 billion, INSA 488 million, Jimma University 48 million)*	
Ineligible expenditures ETB: 75.9 million – in 41 BIs : Ministry of Defense and mostly universities	
Improper recording: Wrong coding (account code) – ETB 8.4 million in 2 BIs, recording of revenue as liabilities ETB 255 million in 2 BIs	
Not claiming guarantee – ERCA ETB 222.5 million	
Procurement which was not in line with the laws and regulation – ETB 165 million in 43 BIs	
Purchases not evidenced by goods receipt - 10 entities, ETB 22.55 million*,	
Advance payments recorded as expenditures – ETB 230.8 million in 13 BIs	
Over payment – ETB 1.9 million in 10 BIs	
Wrongly coded payments – ETB 20.3 million in 36 BIs	
Transaction on the wrong fiscal year – ETB 4.3 million	
Unreported expenditure – ETV 35.5 million in 4 BIs	
Payment to materials on site (contrary to procurement guideline) – ETB 168 million in 11 BIs	
Payment effected without approval of the authorized official – ETB 1.2 million in 4 BIs	
Long outstanding payables – ETB 471.6 million	
Overspending without approval: ETB 379.9 million (30 entities)	
Unused budget: ETB 2.2 billion in 96 entities out of the 10% of the sampled budget line items	
No identification number on fixed assets in 28 BIs	
No physical count in 13 BIs	
Stock count not reconciled with records in 17 BIs	
No fixed asset register – 32 BIs	

* Insufficiently documented transactions. These add to ETB 4,070m, which is 31% of all expenditure on goods and services and capital.

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-20	B+	B	M1	Apparent deterioration

(i)	A	B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for most types of expenditure with minor areas of exception.	No change. In the 2010 assessment it appeared that IBEX blocked commitments over cash availability. This is not so, as IBEX is not used to control commitments. The rating should have been B.
(ii)	B	B	Other internal control rules are comprehensive and generally understood	No change
(iii)	B↑	B	Compliance with rules is fairly high, but there are still many cases of non-compliance	No apparent change, though 2010 assessment did not cite data from OFAG and may have overrated this dimension.

PI-21 Effectiveness of internal audit

Under the Financial Administration Proclamation (648/2009), MoFED has a responsibility to: (1) oversee the internal audit function of BIs and to develop standards on internal audit; (2) assist in building the capacity of internal audit; (3) monitor measures taken in response to internal audit reports; (4) submit annual reports on the findings of internal audit to the Council of Ministers; and (5) monitor the implementation of decisions of the Council³⁷. The Inspection Department of MoFED oversees the internal audit function at BI level.

An internal audit training module was issued by MoFED in 2005 based on the internal audit manual issued in 2004. In addition, MoFED issued an Internal Audit Reporting Procedure Manual in Amharic, in January 2010, and a Performance Audit Manual, Standards and Implementation Guide, in July 2013³⁸. Performance audit will commence by the end of 2013/14 following training to be conducted in February 2014. The training is part of the EMCP capacity building program.

The Inspection Department developed and distributed a prototype Internal Audit Committee Operational Manual to be used by local governments (woreda level).

According to the same proclamation, each BI is responsible for ensuring that its internal audit function is appropriately staffed with trained and qualified manpower and that internal audits are carried out efficiently, effectively and economically, and that it takes appropriate measures in accordance with the report of the external audit or internal audit.³⁹ In line with the Proclamation, all the 147 BIs have Internal Audit Departments (IADs) and report quarterly to the Inspection Department.

³⁷ Financial Administration Proclamation 648/2009, Article 5

³⁸ These manuals are available on the website of MoFED

³⁹ Financial Administration Proclamation 648/2009, Articles 6 and 7.

The Inspection Department at MoFED has a regulatory role and conducts special investigations when required. It also builds the capacity of Internal Audit Units and monitors and evaluates their work. International Standards for the Professional Practice of Internal Audit (ISPPA), issued by the Institute of Internal Auditors are used in the manuals and practices of the internal auditors.

The Inspection Department facilitates about four training courses per annum for internal auditors. It has 23 technical staff members, of which one has a master's degree and 18 have bachelor degrees. Through EMCP, 40 internal auditors for various BIs have been attending Institute of Internal Auditors courses for certification. High staff turnover remains a challenge.

(i) *Coverage and quality of the internal audit function*

Internal Audit Departments (IADs) at BI level prepare annual audit plans based on an assessment of system risks. Pre-audit (an accounting function) is no longer done by internal auditors. IADs send their annual audit plans to the Inspection Directorate.⁴⁰ The annual audit plan includes previous year performance, the assumptions for the plan (including identified risk areas), and quarterly schedules. Audits are guided by internal audit manuals that are based on ISPPA. 19 IADs out of 147 were inspected by the Inspection Directorate for compliance, quality of their audit work and follow-up of audit findings. According to this study, performance of internal audit is weak in some universities because of the weak link between internal audit, finance and procurement units, lack of competency of the Internal Auditor and Internal Audit Head and lack of appropriate training. In some BIs, inappropriate organization of the IAD, limited attention to the internal audit function and low levels of salary are said to have affected the performance of internal audit⁴¹.

An assessment conducted in June 2014, commissioned by the World Bank and Inspection Department at MoFED, indicated that most of the ministries are not properly implementing Directive no. 8/2003, which requires the application of internal audit standards and the establishment of risk management⁴².

(ii) *Frequency and distribution of reports*

IADs issue individual audit reports as they are completed and a quarterly report, which is a summary of individual audit reports, to the head of their respective BIs. The Inspection Directorate receives between 450 and 500 quarterly audit reports every year from the IADs. It is not a legal requirement to send internal audit report to OFAG. However, OFAG often requests internal audit reports as part of its external auditing process.

(iii) *Extent of management response to internal audit findings*

The Federal Ethics and Anti-Corruption Commission collects quarterly reports of the PPA's procurement and property audits, and requests the Inspection Directorate for investigative audits. Significant internal audit findings are summarized and reported to Parliament by MoFED.

Minor irregularities have been reported by internal audit reports and OFAG reports, which are mainly related to universities, due to the increased responsibilities in managing big projects and the lack of competent internal auditors. In November 2013, MoFED conducted a study and proposed

⁴⁰ Annual Audit Plans of some of the BIs, Inspection Directorate

⁴¹ *Study Report on Organizational Structure and Competency of Internal Audit, Finance and Procurement Departments in the Federal PB and Universities* – November 30, 2013 (MoFED)

⁴² RBIA Lead Local Consultant Report – June 2014

courses of action to strengthen and restructure the IADs of universities and some other BIs, to address irregularities indicated in the various audit reports.⁴³ The report proposed that IADs report to MoFED rather than to heads of BIs, and the establishment of audit committees to enhance responses to internal audit findings.

Exit conferences on internal audit findings take place in the presence of the head of the BI and the relevant heads of departments of that BI. Each exit conference is documented and an action plan is agreed for following up the recommendations. The State Minister⁴⁴ of MoFED often chairs the exit conference for internal audit reports by the IAD of MoFED.

The Inspection Directorate issues letters to the heads of BIs requesting their reactions to the audit findings within 30 days. Such letters cover only material (serious) findings. If the BI does not respond within 30 days, the Inspection Directorate refers the matter to the Minister of Finance. In addition, the Inspection Directorate conducts investigative audits on serious problems.⁴⁵

The Inspection Directorate is planning the procurement of software for enhancing the performance of the Directorate.

The IAD of MoFED records the status of action taken on recommended audit findings and reports every year. The report includes the findings, the decision of the management, and the actions taken or planned to be taken by MoFED.⁴⁶ Management action on internal audit findings is prompt and fairly comprehensive in all BIs.

Table 3. 33 PI-21 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-21	C+	B+	M1	
(i)	A	B	Internal audit is operational for all Federal Government entities, focuses on systemic issues and generally meets professional standards	Continuing improvement in audit quality, assisted by EMCP audit reform, though challenged by high staff turnover. 2010 assessment appears too high.
(ii)	A	A	Reports adhere to a fixed schedule, and are distributed to the auditee, MOFED and (constructively) to OFAG	No change
(iii)	C	B	Management action on internal audit findings is prompt and fairly comprehensive in all BIs.	Improvement ⁴⁷ The November 2013 report recommended ways of strengthening management response to internal audit

⁴³ Study report by MoFED on the structure and staffing of procurement, internal audit, finance and property administration.

⁴⁴ Internal Audit Department of MoFED, Audit reports issued by ID of MoFED

⁴⁵ Investigative audit conducted at Bahr Dar University on procurement.

⁴⁶ The audit findings and follow-up report of Internal Audit Department of MoFED, Inspection Directorate.

⁴⁷ The original B rating in 2010 was later lowered to C in the May 2011 version.

				findings, e.g., internal audit departments in BIs reporting to MoFED rather than the heads of BIs.
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3.5 Accounting, Recording and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

(i) Regularity of bank account reconciliations

There are more than 400 bank accounts managed by the Treasury. Many of the BIs have three Treasury-controlled accounts, called B account (revenue collection), D account (deposits) and Z account (zero balance account). In addition, some of the BIs have donor accounts, mainly at NBE.⁴⁸

Zero balance accounts are reconciled daily by the General Accounting Directorate (GAD) at MoFED. Daily bank statements (statements of account) and disbursement reports from CBE are used to enter transactions into the IBEX system. BIs check the statements against the running balance of their ceilings. They submit monthly financial reports to GAD who check them against the transfers made from zero balance accounts. Deposits to the Treasury Accounts at NBE and CBE are reconciled daily against deposit slips. Deposit slips are collected daily from CBE and NBE.

In addition, monthly bank reconciliation reports are prepared by each BI and submitted to MoFED before the 5th of the following month⁴⁹ as part of the monthly financial report⁵⁰. The reconciliation takes place at detail and aggregate levels. More than 60% of the BIs submitted their financial reports, including bank reconciliation reports, for the month of Tahsas EFY 2006 (December 10, 2013-January 8, 2014) before 29 February 2014. 16% of the BIs did not submit the monthly report for 2013/14 by 8 July 2013.⁵¹

Reconciliation statements show deposits in transit which are related to transfers and deposits made mainly by the end of the month, and outstanding checks where payees are yet to claim from the bank. Some of the outstanding checks and deposits in transit of some BIs have been outstanding for six months.⁵²

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

Suspense accounts and advances are reconciled at least quarterly and only a few balances are carried forward to the following year. Balances are mainly attributed to previous years and are under review and investigation to clear up. There are insignificant suspense accounts which have been carried forward

⁴⁸ Ministry of Education has about 20 bank accounts at NBE, of which about six are active.

⁴⁹ Directorate of Accounts – MOFED, Finance and Procurement Directorate of MoE, MoH, monthly reports submitted by Civil Aviation, Civil Service and Information Network Security Agency

⁵⁰ The Accounting Procedure of GOE (5/2003) requires BIs to submit their monthly financial reports before the 15th of the following month with annexed bank reconciliation.

⁵¹ MoFED Accounts

⁵² MoE, Civil Service

for many years in some of the BIs but are now being cleared following the comments of OFAG.⁵³ BIs are required to submit an ageing report for receivables including suspense and advances including the status of the accounts and the action to be taken. The balance on suspense account (4201) is reducing every year.⁵⁴ Most of the recent balances on suspense accounts are attributable to previous years.⁵⁵

Payments using suspense forms are cleared within seven days. Staff advances paid from suspense account are deducted from salary if not settled within a month. Advances made to suppliers are reconciled and reviewed periodically.

Table 3. 34 PI-22 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-22	B+	A	M2	
(i)	B	A	All government bank accounts reconciled monthly within 4 weeks at aggregate and detailed levels	There is a significant change in timeliness of account reconciliation
(ii)	A	A	Suspense accounts and advances are reconciled at least quarterly and only a few balances are carried forward to the following year. Balances are mainly attributed to previous years and are under review and investigation to clear up.	The follow-up of OFAG on suspense and long outstanding advances alerted BIs to clear long outstanding suspense accounts

PI-23 Availability of information on resources received by service delivery units

The Federal Government does not manage service delivery units such as primary schools and health care centers. This indicator is scored at the regional/woreda level, and is not applicable here, as in the 2010 assessment.

PI-24 Quality and timeliness of in-year budget reports

This indicator assesses the scope of reports, their timeliness and the quality of information on actual budget implementation.

(i) Scope of reports in terms of coverage and compatibility with budget estimate

Monthly detail reports are prepared by BIs and submitted to MoFED. The reports include budget execution by detail economic classification, by source of funds, payables, receivables, transfers and trial balances. Payables (creditors) represent outstanding amounts due on delivered supplies, services and work done. Bank statements and bank reconciliation statements are also annexed to the reports. The reports generated from IBEX do not show commitments, which represent outstanding orders. Monthly reports of BIs that are using IFMIS show commitments alongside the budget and the outturn. The monthly reports also show the outturn for the month and the year up to the reporting date. The reports are just tables and there is no narrative or notes. BIs separately report donor funded expenditures on a quarterly basis in a format agreed with the donors, which often

⁵³ MoE and MoH have balances of ETB 3.2 million and 189,000 respectively (financial report for month ended 7 February, 2014).

⁵⁴ The balances of suspense account (4201) as of July 7, 2011, 2012 and 2013 were ETB 191 million, ETB 168 million and 148 million respectively.

⁵⁵ Bahir Dar University, MoH

includes the budget outturn, cash flow and cash position.⁵⁶ Quarterly financial reports, which are referred to as Interim Financial Reports (IFRs), are consolidated and issued by the Channel 1 Directorate of MoFED.

(ii) *Timeliness of the issue of reports*

According to the accounting procedure manual, BIs are required to submit their monthly financial reports before the 15th of the following month. Some of the BIs manage to send reports even before the 6th of the following month.⁵⁷ Since there is no online networking between MoFED and BIs, the monthly reports of the BIs are entered manually into IBEX by GAD every month to generate consolidated financial reports at Federal level.

22 BIs submitted the monthly report for the 6th month of FY 2013/14 before the 15th of the 7th month and 72 BIs submitted one month later. There is a considerable delay in submission of monthly reports by the other 36 BIs. As of 28 February 2014, 26 BIs were yet to submit monthly financial reports from the beginning of 2013/14. The pressure on BI accountants to clear up audit queries and long outstanding balances and suspense accounts has delayed reporting.⁵⁸

Channel 1 in-year reports are consolidated on a quarterly basis and submitted to users, including to donors, 90 days from the end of the quarter. This delay is due to the fact that data is consolidated primarily at woreda level, then at regional level and finally at national level. There is no consolidated in-year report generated at federal level. Channel 1 reports are generally submitted a few days before the reporting deadline agreed with donors.

(iii) *Quality of information*

MoFED accountants check the monthly financial reports before entering the data into IBEX. Errors and adjustments, if any, are communicated to BIs and adjustments are reflected in the subsequent month's report. In-year financial reports are generally accurate and reliable. Better internal audit and the use of IBEX have contributed to the quality of financial reports. Generally, there is also improvement in quality of Channel 1 reports.⁵⁹

There are few concerns expressed about the quality of data. Significant discrepancies between 'below-the-line' data on the domestic financing of the budget deficit and the monetary accounts continue to complicate assessment of fiscal developments (IMF Article IV Oct 2013), but these are outside the scope of this indicator. OFAG comments that accounts are improving, but that BIs sometimes will not make necessary corrections following audit, as MoFED will not accept changes.

Table 3. 35 PI-24 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-24	B+	C+	M1	No real change
(i)	A	C	Classification of data allows direct comparison with the budget, but only at the accrual and payment stages, not at commitment stage	No change. This was rated A in 2010 without mention of the commitment stage. It appears that it should have been rated C, and that there has been no real change.
(ii)	A	B	Consolidated reports on the Federal BIs are prepared	No real change. The roll-out of IBEX has assisted the

⁵⁶ MoH

⁵⁷ Based on information from the heads of BIs, internal audit and foreign resource mobilization directorates of MoFED are among the recipients of their monthly financial reports.

⁵⁸ MoFED, Financial report submission follow-up report issued on 28 February 2014.

⁵⁹ Audit reports of channel one, Channel One Directorate

			monthly and mostly issued within 6 weeks of the end of the month	accounting and reporting functions. However, the 2010 assessment did not take into account the delay in reporting from many BIs. The score should have been B..
(iii)	B	B	There are some concerns about data accuracy, but these do not undermine their overall consistency or usefulness	No change

Ongoing and planned reforms

A new financial management software called Integrated Financial Management Information System⁶⁰ (IFMIS) has been under implementation in 10 initial pilot BIs, including MoFED, MoH, MoE, Ethiopian Road Authority, ERCA, Ministry of Civil Service, and Oromia and SNNPR Regional Finance Bureaus. IFMIS contains modules for General Ledger, Accounts Payable, Accounts Receivable, Cash Management, Public Sector Budgeting, Purchasing, Payroll, Inventory and Fixed Assets, and is interfaced with ASYCUDA and SIGTAS systems.

The pilot BIs are expected to go live with IFMIS shortly after the assessment and it is planned to roll it out to 1,700 sites by March 2017. It is expected that the full use of IFMIS will improve the quality, timeliness and comprehensiveness of content of in-year financial reports, including reports on commitments.

PI-25 Quality and timeliness of annual financial statements

Consolidated year-end financial statements are a good expression of the PFM system’s transparency. The preparation and reporting of public accounts in GOE is governed by Financial Administration Proclamation 2009, Articles 59 and 60. According to the Proclamation, MoFED shall prepare consolidated public accounts for each fiscal year, which shall embody the audited accounts of public bodies, and submit them to the Auditor General.

On revenue and expenditure items, the original budget and adjusted budget (after supplementary authorization) are shown for comparison, as well as the variance from the adjusted budget (over/under). There is no explanation or analysis of variance.

The quality of the annual statements may be judged from the OFAG opinions given: for 2011/12, there were 57 unqualified audit reports, 52 qualified, 7 disclaimers and 13 adverse opinions. Two BIs failed to close and submit their accounts. Out of all 131 BIs, only 44% had clean reports.⁶¹

Apart from the consolidation of Federal Government BIs, there is a further consolidation of federal and sub-national government accounts (the latest is for 2009/10), i.e., general government. This does not include the extra-budgetary funds that are part of central government under IMF-GFS definitions (see PI-7 (i)), nor public enterprises controlled by the Federal Government (as would be required under cash or accrual IPSAS).

(i) *Completeness of the financial statements*

⁶⁰ Oracle E-Business Suite version 12.1.1

⁶¹ The quality of accounts is reflected in PI-24 (iii) rather than in PI-25, which focuses more on their completeness and timeliness.

The annual financial statements of the Federal Government include information on revenues and expenditures, and financial assets and liabilities. Financial assets include bank balances, staff advances, government equity in PEs, loans on-lent to PEs, prepayments and other receivables. Financial liabilities include accounts payable, salaries in arrears, external debt, outstanding Treasury bills and NBE advances. There is an omission of donor-funded project expenditure (see PI-7 (ii) above), but this is not counted against this indicator, which covers only budgetary central government, and includes donor-funded project expenditure only if it is budgeted.⁶² Donor-funded project expenditure is, in any case, reported separately.

(ii) *Timeliness of submission of the financial statements*

The last annual financial statements are for 2012/13. These are in draft as they are not yet audited. According to MoFED Directive, they should be presented for audit within six months of the end of the year, and OFAG has four months to complete their audit and submit the audited accounts and report to Parliament.

According to the accounting procedure of GoE (Guide No 5/ 2003, issued in 2011), MoFED should complete and submit its financial statements within six months from the end of the fiscal year, and present the audited statements to the Council of Ministers and Parliament within 12 months from the end of the fiscal year.⁶³ The OFAG should then complete the audit and submit the report to the House of Peoples' Representatives within four months from receipt of the financial statements from MoFED.⁶⁴

There is a considerable improvement in the timeliness of draft financial statements to OFAG. For the FYs 2010/11, 2011/12 and 2012/13, financial statements were submitted to OFAG about six months from the end of the fiscal year (see the table below).

Table 3. 36 Timeliness of Submission of Financial Statements

TIMELINESS OF SUBMISSION OF FINANCIAL STATEMENTS TO OFAG			
FINANCIAL STATEMENTS	FY 2010/11)	FY 2011/12	FY 2012/13
Submission to OFAG	January 26, 2012	January 9, 2013	January 17, 2014
Timeliness of submission (from the end of the EFY)	6 months and 17 days	6 months	6 months and 8 days

Sources: Accounts Department, MoFED and OFAG

(iii) *Accounting standards used*

The annual financial statements are prepared on an historical cost basis, using a modified cash basis of accounting. Revenue is recognized on receipt, except for aid in kind (which should be valued before being brought to account), employee income tax and fines (recognized on processing of payroll), interest on salary advances (ditto), and deduction of withholding tax from payments to

⁶² See Field Guide clarification 25-c, p. 143: Full information, in terms of this dimension, is defined as full information on revenue, expenditure and financial assets/liabilities, including disclosure of arrears of revenue, arrears of expenditure, financial assets and public debt, either in the balance sheet (in an accrual-based system) or by way of notes to the financial statements (in a cash-based system). Off-budget operations, which are neither covered by the budget, nor managed through the Treasury system, therefore, do not have to be included in "full" information.

⁶³ BIs to submit their report for audit in 90 days from the end of the fiscal year and MoFED 90 days from the receipt of the financial report.

⁶⁴ Office of the Federal Auditor General Establishment (Amendment) Proclamation 669/2010.

suppliers (on payment of invoices). Tax revenues are recognized on receipt by ERCA. External assistance is also recognized on receipt.

Expenditure is recognized on a cash basis during the year, but accrued at the end of the year for the annual statements. The accounts are kept open for a 'grace period' of one month after the end of the financial year so that outstanding liabilities are paid and cash payments 'catch up' with recorded expenditure. Salary and pension payments are recognized on processing of the payroll (monthly). Interest on public debt is recognized on payment. Every transaction in foreign currency is translated into ETB at the rate of exchange prevailing at the date of transaction, while end-of-year balances are translated at the rates prevailing on June 30. Losses due to depreciation of the birr are written off as expenditure (and vice versa).

The financial statements are moving toward the international standard (cash-based IPSAS) in that, from 2011/12, they include a cash flow statement (broken into operating, investing and financing activities), statement of financial position and statement of financial performance, together with extensive notes and supplementary disclosures. However, they do not claim to comply with IPSAS, and in some respects do not do so. A list of reporting entities is included (177 in 2011/12), also an analysis of accounts payable and receivable, but no statement of undrawn external aid, contingent liabilities, etc.

Table 3. 37 PI-25 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-25	C+	C+↑	M1	
(i)	B	A	The annual Federal Government statement includes full information on revenue, expenditure, and financial assets/liabilities.	Improvement in coverage
(ii)	B	B↑	The annual statement is submitted for audit within 6-7 months of the end of the fiscal year	Improvement , and narrowly misses an A rating. No change in score.
(iii)	C	C↑	Statements are presented in consistent format over time with disclosure of accounting standards	No change in the score, but a significant improvement in presentation and disclosures

Planned reforms

A new Proclamation on Financial Reporting has been prepared and has been submitted to the Council of Ministers for clearance, and will then go to Parliament for approval.

A concept paper has been prepared on the transition from a modified cash basis of accounting to an accrual basis, though this has not yet been approved by MoFED. The paper suggests that meeting the precedent conditions, such as revising the legal framework, developing property administration and introducing valuation and depreciation of properties, re-organization and job re-grading, skills training, internal audit upgrade, salary review to reduce staff turnover, establishment of an

Ethiopian Public Sector Accounting Board, and preparation of an opening balance sheet, could take place in parallel with the rollout of IFMIS over the next three years.⁶⁵

3.6 External scrutiny and audit

PI-26 Scope, nature and follow-up of external audit

(i) Scope/nature of audit performed (incl. adherence to auditing standards)

The Office of the Federal Auditor General (OFAG) derives its authority from the Constitution and Proclamation 69/2010. These give it both legal and operational independence. Constitutionally, the Auditor General's budget should be set by the House of Representatives, but, in fact, it is determined by MoFED within a financial ceiling in the same way as other BIs. However, the Auditor General has been able to build up his capacity and coverage of the Federal Government to 100% in 2012/13 (from 51% in 2008/09). As with other BIs he has sufficient authority over management of his human resources. OFAG uses the same pay scales as other BIs, but auditors are paid at three grades higher.

Under the Constitution, the Auditor General is required to audit the use of federal subsidies to regions, even though this is part of the audit by Regional Auditors General. A Single Audit Act was drafted, but has stalled in a committee of the House of Representatives since 2010.

The Auditor General follows the International Standards for Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI). Apart from the financial audits, he carries out performance audits, of which about 20 were performed in 2012/13. Procurement audits are mainly left to the PPA, but still come within the scope of the Auditor General's financial audits. No IT audits have yet been carried out to assess IT security, e.g., on IBEX.

The introduction of continuous audit by OFAG enables prompt action on irregularities, as queries are communicated to the auditee before the completion of the formal audit report.

The OFAG audited all Federal Government bodies for the year 2012/13.

(ii) Timeliness of submission of audit reports to the legislature

Audit reports are submitted to Parliament within 4 months of receipt of the financial statements:

- 2010/11: April 24, 2012, 3 months after receipt of financial statements;
- 2011/12: April 18, 2013, 3 months 9 days after receipt of financial statements;
- 2012/13: still under audit at time of assessment.

(iii) Evidence of follow up on audit recommendations

OFAG follows up on its recommendations through the PAC hearings of those who have had adverse or qualified reports, or disclaimers. Heads of audited bodies attend and have to submit action plans on the measures that will be taken. The Council of Ministers is strongly supporting this process. No

⁶⁵ MoFED (2013) Concept Note Paper on Transition to Accrual Based Government Accounting and Budgeting System, November

database is kept of outstanding recommendations or queries. OFAG follows up at the following year's audit to establish whether action has been taken. The OFAG says that most heads of BIs do respond.

Table 3. 38 PI-26 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-26	C+↑	B+	M1	
(i)	C↑	A	All entities of central government are audited annually, covering revenue, expenditure, and assets/liabilities, financial and performance audits, using ISSAIs	Improvement , facilitated by increasing funding, enabling increased capacity.
(ii)	A	A	Audit reports are submitted to Parliament within 4 months of receipt of the financial statements	No change
(iii)	C↑	B	A formal response is made in a timely manner, but there is little evidence of systematic follow up.	Improvement , helped by increased involvement of the Council of Ministers and the PAC.

PI-27 Legislative scrutiny of the annual budget law

(i) Scope of the legislature's scrutiny

The Budget and Finance Committee (BFC) is a standing committee of 20 members, appointed by the Speaker of the House of Peoples' Representatives. It has two sub-committees; one for revenue and finance, and one for expenditure. Its scrutiny of the budget is done in four phases, one on the Macroeconomic and Fiscal Framework (MEFF), one at the MOFED budget hearings, one on the detailed estimates and one on its execution.

The MEFF is received in February. The BFC examines whether the sectoral allocations are in line with the GTP, and checks the federal subsidy calculations. This takes a few days. Following submission of budget estimates by BIs, there are two months of budget hearings by MOFED, which are attended by members of the BFC and of specialized sectoral committees. Sixteen parliamentary committees cover the 12 ministries. At this point the budget is fluid and can be changed.

MoFED completes the hearings and finalizes the budget, which is approved (and seldom changed) by the Council of Ministers, and presented to the House by the Minister of Finance on June 7. The Speaker refers it to the BFC. Their scrutiny involves getting clarifications from the Minister and senior officers of MOFED. Other members of the House may also ask questions, e.g., concerning their constituencies. The "technical hearing", for one or two days, is followed by a "public hearing" of one day, to which the Regional Governments, NGOs and the media are invited. The BFC makes its report to the Speaker who lays it before the House. The plenary session lasts 2-3 days. Members may make cut motions or transfer motions, but at this point change is possible only to correct errors, if any. The House normally approves the budget by July 7.

The BFC also oversees the executive implementation of the budget. Quarterly reports are made to BFC and the specialized committees. Physical implementation of the budget is confirmed by site visits where necessary.

(ii) *Extent to which the legislature's procedures are well-established and respected*

Both the legislature and the executive are controlled by the party in power. The procedures (described above) are well established and respected.

(iii) *Adequacy of time for the legislature to provide a response to budget proposals*

From the BFC's receipt of the MEFF in February to submission of its report to the Speaker in June is about four months. Since this is a federal system and the House does not have to consider more than the federal revenues and expenditures (unlike a unitary state), this time is sufficient.

(iv) *Rules for in-year amendments to the budget without ex-ante approval by the legislature*

A supplementary appropriation is sought by the executive only if the approved aggregate expenditure budget is insufficient. This usually happens once a year, and after six months performance. MoFED seeks Council of Ministers approval for an adjusted budget in January. As the House is in recess in February, the supplementary is scrutinized and approved in March. The same procedure is followed as for the original budget. It should be noted that any *reduction* in expenditure below the approved estimates, e.g., due to a shortfall of resources, is managed by MoFED and does not require legislative authorization. MoFED also has flexibility to transfer budgetary provisions between sectors, programs and economic items, within the overall ceiling. The only restriction is that savings on the capital budget cannot be transferred to increase recurrent expenditure, irrespective of comparative benefits.

Table 3. 39 PI-27 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-27	D+↑	B+	M1	Improvement ⁶⁶
(i)	C	B	The BFC review covers fiscal policies and aggregates (the MEFF) as well as detailed estimates of revenue and expenditure	Improvement in coverage (<i>A rating also requires fiscal & and medium term priorities</i>). The limiting factor in the 2010 assessment was that BFC had no prior opportunity to review the proposed budget framework.
ii	C↑	A	The legislature's procedures are well established and respected and include	Improvement due to introduction of procedures manual in

⁶⁶ The scores are drawn from the final report version of May 4, 2011.

			inputs from specialized review committees	2007 and subsequent strengthening of procedures.
iii	B	A	The legislature has at least 2 months to review the budget proposals	No change. The 2010 score did not take into account BFC review before formal presentation to the Council.
iv	B	B	Clear rules exist and are respected, but they allow extensive administrative reallocations	No change

PI-28 Legislative scrutiny of external audit reports

The Parliament has a key role in scrutinizing the execution of the budget that it approved. The Auditor General (OFAG) submits his reports through the Speaker of the House of Representatives to the Public Accounts Committee (PAC). The PAC has 15 members appointed by the Speaker from Members of the House for the term of the Parliament (five years). The Chairman is from the opposition (the only opposition member at the time of the assessment). The business of the PAC is conducted through two sub-committees, one for the social sector and one for the economic sector. As indicated in the 2010 PEFA report, the PAC became fully operational only in 2008/09.

(i) *Timeliness of examination of audit reports by the legislature*

The OFAG report is submitted about March each year (nine months from the end of the FY), but April/May is very busy with the budget process and Parliament is in recess from June, so the holding of hearings usually starts only when Parliament reconvenes. The PAC finishes its scrutiny by November, eight months after receipt of the OFAG report.

(ii) *Extent of hearings on key findings undertaken by the legislature*

Hearings are held regularly on Wednesday mornings in Parliamentary premises. In principle they are open to the public, but in practice there is insufficient interest in media participation. Live transmission of hearings applies only to the Auditor General's presentation of his report. Hearings may be held at project sites where necessary, and may be made jointly with other committees having a common interest. Decisions are arrived at by consensus.

The Ministers and heads of all BIs receiving an adverse opinion or disclaimer (but not qualified opinions) from the Auditor General (about 10-14 a year) are called to account and are required to submit action plans of correction, with copies to the Auditor General and the respective standing committee. Hearings are in depth. Representatives of OFAG attend and provide technical support. MOFED is required to attend and advise on any issues concerning the legal framework for finance, and with regard to its own accountability.

(iii) *Issue of recommended actions by the legislature and implementation by the executive*

The OFAG report is accepted without any disagreement, and it provides the basis of accountability to Parliament. The PAC does not make any separate recommendations, nor does it issue a formal report. It issues an internal memo or report on responses by ministers, which may be shared with the Speaker and/or Prime Minister, otherwise it is just filed. All follow up is by OFAG, in the course of its audit the following year. The PAC makes an annual summary of significant findings. The PAC calls heads of public bodies when they fail to submit their action plans on the audit findings and recommendations.⁶⁷

Table 3. 40 PI-28 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-28	C+	D+	M1	No real change.
(i)	C	C	Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports	No change. The financial audit review is completed by November, 8 months after receipt of the OFAG report (within 6 months required for B score). .
(ii)	B	B	In-depth hearings take place consistently with responsible officers only from audited entities that received an adverse opinion or disclaimer	No change
(iii)	C	D	No separate recommendations are made by the PAC	No real change. The C score in 2010 appears to be too high due to crediting the PAC with the recommendations made by OFAG..

1.7 Donor Practices

D-1 Predictability of Direct Budget Support.

The GOE has not received general budget support since 2005. In its place, it has received sectoral budget support, mainly through the multi-donor, multi-sectoral Protection of Basic Services (PBS) program, renamed Promoting Basic Services since the start of PBS III.⁶⁸ The World Bank administers a PBS Trust Fund that is fed by several donors. PBS I and II ran from 2006 to 2012, and have been very effective in expanding access and improving the quality of basic services provided by woredas (education, health, rural roads, agricultural extension services, water and sanitation). Most of the PBS funds go to augmenting the Federal block grant (subsidy) for these services. They are allocated to regions on the same formula as the block grant. Support is provided only for recurrent expenditures. Regional and woreda governments have discretion in spending on basic services in line with national strategies and targets.

⁶⁷ ERA internal audit is currently compiling actions taken and action plans issued by the various directorates of ERA, which are to be submitted to the PAC.

⁶⁸ Sectoral budget support is also provided by the EU to the road sector. Data on this support had not been received at the time of this report, but it is unlikely to affect the rating.

At the federal level, PBS is managed by the Channel 1 Programs Coordinating Unit (COPCU) in MoFED. COPCU has responsibility also for other multi-donor programs, at present the Productive Safety Net Program (PSNP), the Urban and Local Government Development Program, the Water, Sanitation and Hygiene (WaSH) Program and the General Education Quality Improvement Program (GEQIP). These are classified as program support rather than sector budget support (see D-2 below).

(i) *Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature*

The budget is submitted to the legislature by June 8, and six weeks prior to that date is April 27. Forecasts are provided in advance, through semi-annual Joint Review and Implementation Support missions and Joint Budget and Aid Review (JBAR) missions. Disbursement depends on overall performance. The table below shows forecasts and actual PBS disbursements in the last three years. Generally, and in aggregate, annual forecasts are exceeded.

Table 3. 41 Sectoral Budget Support (2010/11-2012/13)

Forecast and Actual Sectoral Budget Support 2010/11 to 2012/13 (USD millions)						
	2010/11		2011/12		2012/13	
Donor	Forecast	Actual	Forecast	Actual	Forecast	Actual
World Bank/IDA	220.0	204.0	204.0	208.0	198.0	191.2
DFID-UK	106.2	117.2	96.2	118.8	93.6	97.8
ADB/ADF	55.0	114.5			85.0	86.2
EU	31.7	29.3	2.6	0.9		51.3
Germany	15.3	14.3	15.8	3.7	24.7	19.7
Austria	2.3	1.8	3.4	2.4	3.0	3.1
Irish Aid	12.5	8.9	12.9	11.6		
Spain		11.6	14.4	1.3		
Italy						
Canada						
Total	443.1	501.6	349.3	346.7	404.3	449.3
Actual/Forecast		113.2%		99.3%		111.1%

Source: Bilateral and Multilateral Aid Directorates, MOFED. These figures differ slightly from the MOFED ODA Statistical Bulletin for EFY 2005, Annex 4, and from MOFED (2013) PBS Phase II Implementation Completion Report for 2010/11 and 2011/12.

(ii) *In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)*

MoFED knows in advance when and how much each donor partner will disburse and thus knows the disbursements for each quarter. Disbursements are not delayed.

Table 3. 42 D-1 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
D-1	NS	A	M1	
(i)	C	A	The outturn was not more than 5% short of forecast in any year	There appears to have been much less correspondence of forecast and actual in 2006/07 – 2008/09 than in the last three years, but this may be due, at least in part, to a different

				definition of budget support in the 2010 assessment.
(ii)	NS	A	Quarterly disbursements by donors are known to MoFED before the start of the year and disbursements are not delayed	The dimension was not scored in 2010 for lack of data.

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

(i) Completeness and timeliness of budget estimates by donors for project support

Forecast and actual program and project support (excluding PBS support in the table above) is shown in the table below.

Table 3. 43 Program/Project Support

Forecast and Actual Program/Project Support (USD Millions)						
Donor	2010/11		2011/12		2012/13	
	Forecast	Actual	Forecast	Actual	Forecast	Actual
World Bank/IDA	854.3	808.5	813.6	807.2	970.6	892.5
DFID	285.2	392.3	349.4	346.5	451.0	396.7
ADB	145.7	205.3	149.5	130.5	276.4	259.7
EU	131.5	118.7	133.3	29.3		82.0
USAID	202.9	128.9	225.5	160.5	231.9	171.5
UNICEF	23.8	108.3	24.9	63.5	31.1	160.4
China		192.4		407.0		402.4
Total	1643.4	1954.4	1696.2	1944.5	1960.9	2365.2

Source: Bilateral and Multilateral Aid Directorates, MoFED, from the Aid Management Platform.

The Aid Management Platform, managed by MoFED External Resource Mobilization and Management, is a web-based database into which donor agencies are asked to enter their commitments and disbursements for each project. It has been running since 2005, but it appears that it is not fully supported by all donor agencies. World Bank provides MoFED access to its Client Connection database, from which the IFI Directorate can themselves enter World Bank/IDA data. No other donor has this facility, and it appears that some donors are not keeping the AMP up to date. There may also be issues on the responsibility for inputs where disbursements are made through another donor, e.g., donor contributions to a World Bank Trust Fund. For Channel 1 and Channel 2 aid, MoFED obtains data from both donors and relevant MoFED focal points and inputs this to a 'shadow' AMP database to which only they have access.

The 'actual' figures in Tables 20 and 21 differ from the Federal Accounts: for instance, the total aid (assistance and loans) brought to account in 2011/12 was ETB 28,771 million, which is considerably less than the sum of the two tables above. The principal source of difference is Channel 3 aid, direct to donor-managed projects and NGOs, which is not routed through the Treasury, and on which they have no data. The tables here are based on the MoFED-access database.

The PEFA requirement is that donor support is predictable. Good practice is that all major donors provide estimates of their support for the coming budget year, broken down by quarter, in time for this to be taken into the Medium Term Fiscal Framework (in Ethiopia, by November).

Ethiopia does not have an aid policy or partnership policy, but the Development Assistance Group (DAG) and MoFED have an aid effectiveness action plan with clear indicators and targets on aid effectiveness progress. The GOE Aid Effectiveness Task Force reported to the Global Partnership, in September 2013, on the monitoring of country compliance with the Busan principles. This shows that 14 donors out of a total of 30 provide quarterly forecasts to MOFED. The Director, IFI Cooperation, on behalf of all aid directorates, says that *no* donors are giving quarterly forecasts of their disbursements. The Assessment Team has not seen any evidence of quarterly forecasts or annual forecasts with quarterly breakdowns. However, annual forecasts may be broken down by quarter by MoFED.

(ii) *Frequency and coverage of reporting by donors on actual donor flows for project support*

Donors do not generally provide quarterly data on actual disbursements on budgeted projects. ADB and some other donors are entering monthly disbursement data into the AMP within 14 days of the end of the month. The Assessment Team attempted to triangulate the above with data on actual disbursements according to selected donor agencies. This was complicated by the different accounting years of the various donors and the different currencies used.

Table 3. 44 D-2 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
D-2	C	D+	M1	
(i)	C	C	Major donors are providing annual estimates of disbursement of project aid in discussion with line ministries, though not formally to MoFED and in IBEX classification.	No change
(ii)	C	D	Donors (at least the largest five) do not provide quarterly reports of actual disbursements within two months of the end of each quarter. Some donors are entering monthly disbursement data in the AMP.	Apparent deterioration in donor reporting.

Table 3. 45 Proportion of aid using country systems

Calculation of Share of Aid using National Procedures					
Donor	Disbursements 2012/13 (USD mn) weighting	Procurement	Payments/ Accounting	Reporting	External Audit
World Bank/IDA	1083.7	29%	70%	70%	100%
DFID-UK	494.5	100%	20%	20%	100%
ADB	345.9	0%	0%	0%	30%
EU	133.3	0%	0%	0%	0%
USAID	171.5	50%	0%	0%	0%
Weighted averages		40%	38%	38%	75%
Overall average			48%		

Source: Interviews with above donor agencies

The Development Effectiveness Taskforce commissioned an assessment of the use of country systems by different development partners, based on 2011 data. The report was presented and approved by the High-Level Forum in December 2012. Though this assessment used a different methodology from the PEFA Framework, the overall share of ODA using country systems in calendar year 2011 (51%) was very close to this assessment. What was alarming is that this had fallen from 66% in 2010 and appears to be continuing to fall.

Table 3. 46 D-3 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
D-3	C	D	Less than 50% of funds to the Federal Government are managed through national procedures	Comparison not possible as different method used in 2010 assessment on the basis of incomplete data.

4. Government Reform Process

Recent and ongoing reforms

All government reforms, at all levels, are planned and managed within the overall national plan, the Growth and Transformation Plan (GTP), a common framework for development and achievement of the Millennium Development Goals (MDGs) in Ethiopia. The GTP (2010/11-2014/15) was issued in November 2010. The GTP's objectives are: to (i) attain high growth within a stable macroeconomic framework; (ii) achieve the MDGs in the social sector; and (iii) establish a stable democratic and developmental state.

The GTP addresses issues relating to public financial management (PFM), including (at the Federal level): enhancement of tax administration and collection with focus on the presumptive tax system, tax audit and VAT; increasing the share of expenditure to pro-poor sectors: institutionalizing systems that ensure transparency and accountability, with focus on access to information, complaints handling, pre-notification of service requirements, and disclosure of public information; enhancement of public participation in government planning, monitoring and evaluation through community-based organizations; enhancement of civil servants' knowledge and application of laws and regulations; and strengthening financial audit.

The Public Sector Capacity Building Program (PSCAP) started in 2005 under the Ministry of Capacity Development. It comprises six sub-programs: (1) the Civil Service Reform Program (CSRP); (2) District Level Decentralization; (3) Justice; (4) Tax and Customs; (5) Urban Management; and (6) Information and Communication Technology. The first phase ended in December 2012. PSCAP II (2013-2017) is funded by GOE, IDA (World Bank), EU, DFID and the International Development Corporation (IDC) (USD 145 million). It has links with the Promoting Basic Services program (PBS III), and the ongoing Democratic Institutions Program (DIP), coordinated by UNDP. During the second phase of PSCAP it is planned to forge strong synergies with these complementary actions/programs to ensure maximum impact, avoid duplication and reduce the transaction costs.

Ethiopia's indicator for government effectiveness has shown trends of improvement in the last seven years as a result of Public Sector Reform (PSR) efforts (World Bank, April 2013). The Civil Service Reform Program (CSRP) has five sub-programs, including the Expenditure Management and Control Program (EMCP), which is implemented by MOFED. It covers all phases of budget management of expenditure, and is divided into 12 projects (legal framework, procurement, budget preparation, expenditure planning, accounts, internal audit, cash management, IFMIS, property management, external audit, accounts and audit profession, and financial transparency and accountability). The External Audit Project is managed by OFAG: the other 11 projects are implemented by MOFED.

Ethiopia's Promoting Basic Services Program (PBS) (formerly the Protection of Basic Services Program) is a nationwide program that aims to contribute to: (i) expanding access to basic services - education, health, water supply, sanitation, rural roads and agricultural extension services; and (ii) improving the quality of these services. It funds block grants that support adequate staffing and recurrent expenditures for these services, accompanied by measures to promote transparency and accountability at the woreda (district) level. It has also helped to strengthen the decentralized PFM system and supports local civil society organizations that improve opportunities for citizens to provide feedback on service delivery to local administrators and service providers. It serves the whole Ethiopian population, and has contributed to large gains in human development and Ethiopia's rapid progress towards many of the MDGs.

The PBS was established in 2006 and is now in its third phase, funded by GOE, the World Bank, the ADB, DfID-UK, the EU, Austria and Italy. The social accountability component is being supported by DFID, KfW (Germany), Irish Aid, and the EU. A PBS Secretariat was established by the donors to facilitate and coordinate the dialogue on the program and its implementation, and provide analytical support. MOFED is the implementing agency for the program, coordinated by the Channel 1 Programs Coordinating Unit (COPCU) and the PBS Secretariat (PBS II ICR, 2013).

Institutional factors supporting reform planning and implementation

Government leadership and ownership of its PFM reforms is high. Most PFM reforms are implemented within the EMCP, coordinated by the EMCP Coordinating Unit in MOFED. The EMCP started in 2006/07 and is managed by a Steering Committee, chaired by the Minister of Finance and including senior GOE officers and representatives of donor partners.⁶⁹ The program is divided into 12 projects each of which has a designated Project Manager. Performance is monitored against a rolling three-year action plan. The current action plan lists 56 activities, their implementation by year, and responsible bodies (MOFED Directorates, the PPA, regional and woreda administrations, etc).⁷⁰ Progress is monitored weekly by project managers, monthly by the EMCP Coordinating Unit in MOFED, and quarterly by the high level Steering Committee. Progress reports are used to revise and update the action plan. External diagnostic studies such as the CPAR and PEFA assessments are also major sources.

Two major PFM projects are outside the EMCP: DFID support to the Office of the Auditor General and to the Ethiopian Revenue and Customs Authority (ERCA). IMF, UNDP and other agencies provide technical assistance in particular areas of PFM. It is not clear whether the EMCP Steering Committee reviews the plans and progress also of these other projects, so as to have a complete overview of PFM.

The Development Assistance Group of DPs (DAG) provides harmonized support and funding to the GTP, promotes the OECD DAC harmonization agenda, strengthens government monitoring and evaluation systems, and provides strategic and coordinated support to focus areas of the GTP, including education and gender mainstreaming. For PFM there is a specialized Donor Group of interested donors, which co-chaired at the time of the assessment by DFID and the World Bank.

⁶⁹ MOFED (2011) Expenditure Management and Control Reform Program: Tasks and Implementation, 3rd edition, July 2011

⁷⁰ MOFED/EMCP (2012) EMCP Action Plan for 2013-2015, November

ANNEX 1: SUMMARY OF INDICATOR SCORES

No.	Indicator	Scoring	Brief explanation and sources used	Performance change
A. PFM-OUT-TURNS: Credibility of the budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	Out-turn deviated from budget by more than 5% in only one of the last three years. Information from GAD, MOFED, Annex 5	↑
PI-2	Composition of expenditure out-turn compared to original approved budget	B+	(i) Composition variance exceeded 10% in only one of the last three years (B) (ii) Expenditure charged to contingency never exceeded 3% in any year(A) Information from GAD, MOFED, Annex 5	↑
PI-3	Aggregate revenue out-turn compared to original approved budget	B	Revenue out-turn was between 94% and 112% of budget in two of the last three years. Information from GAD, MOFED, Annex 6	NC
PI-4	Stock and monitoring of expenditure payment arrears	A	(i) Stock of arrears is low or nil (A) (ii) Data on arrears is generated monthly (A) Information from GAD, MOFED	NC
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	B	Budget formulation and execution based on Chart of Accounts which supports consistent economic, administrative and COFOG functional classifications. Information from Budget Directorate, MOFED and budget documentation (FY 2014)	Introduction of program budgeting, but no change in score
PI-6	Comprehensiveness of information included in budget documentation	B	Five out of the nine information benchmarks are met. Information from Budget Directorate and budget documentation (FY 2014)	2010 overscored. No real change
PI-7	Extent of unreported government operations	D+	(i) Unreported expenditure, mainly of extra-budgetary funds, is between 1% and 5% of total expenditure (B) (ii) Lack of information on donor-funded projects (D) Information from Treasury, MOFED	↑ on dim (i). No comparison on dim (ii)
PI-8	Transparency of inter-governmental fiscal relations	A	(i) The horizontal allocation of all transfers is determined by transparent and rules-based systems (A) (ii) Regional Governments are provided reliable information ahead of completing their budget proposals (B) (iii) Fiscal information is collected from all regions, and is consolidated within 10 months of the end of the year (A). Information on (i) and (ii) from Budget and Macro Economic Policy Directorates, MOFED, and Oromia BoFED; and on (iii) from GAD.	Improvement in reporting since 2010
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C	(i) Monitoring of PEs does not include a consolidated assessment of the fiscal risks to the Federal Government (C) (ii) The net fiscal position is monitored annually but there is no consolidated overview	No real change due to overscore of dim (ii) in 2010

No.	Indicator	Scoring	Brief explanation and sources used	Performance change
PI-10	Public access to key fiscal information	C	2 of 5 benchmarks satisfied Information from Budget Directorate, MOFED and relevant websites	NC
C. BUDGET CYCLE				
C (i) Policy-Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	A	(i) Budget calendar clear and generally respected (A) (ii) Budget Circular shows ceilings approved by the Council of Ministers (A) (iii) Budget enacted before the beginning of each year (A) Information from Budget Directorate MOFED and spending BIs	NC
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	(i) Forecasts of fiscal aggregates are prepared for 3 years on a rolling annual basis and link successive budget ceilings (A) (ii) Comprehensive debt sustainability assessment undertaken every year (A) (iii) sector strategies are prepared for several sectors but are not consistent with overall fiscal forecast (C) (iv) More systematic planning of costs and benefits associated with investments, but investment decisions not taken as part of sector strategies (C) Information from Budget and Macro-economic Policy Directorates, MOFED and Ministry of Education	↑
C (ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities	A	(i) Tax liabilities clearly defined with limited discretion for tax collectors (A) (ii) Information on liabilities readily available to taxpayers (A) (iii) The tax appeals system is functional and transparent, but there are some issues on its fairness (B) Information from ERCA and Chamber of Commerce	Improvement in the legal framework
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	(i) Taxpayers registered with some linkages with other government databases (B) (ii) Waiver of penalties motivates settlement of tax liabilities (B) (iii) Tax audit program based on analysis of risks (B) Information from ERCA and Chamber of Commerce	NC
PI-15	Effectiveness in collection of tax payments	D+	(i) Arrears are significant but mostly collected promptly (B) (ii) Daily transfers are made to the Treasury and collections are received at least within the week (B) (iii) Reconciliation of receipts, but no regular reconciliation of assessments, collections and arrears (D) Information from ERCA and Treasury	Not scored in 2010
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	(i) Cash flow forecasts updated monthly (A) (ii) BIs are provided reliable cash limits for three month in advance (B)	↓

No.	Indicator	Scoring	Brief explanation and sources used	Performance change
			(iii) Significant in-year budget adjustments are frequent but with some transparency (C) Information from Budget and Treasury Directorates, MOFED and sample BIs	
PI-17	Recording and management of cash balances, debt and guarantees	B	(i) Information complete and reliable and reports issued bi-annually (B) (ii) Most bank balances are calculated and consolidated at least weekly, but some remain outside the TSA (B) (iii) All public borrowing including issue of guarantees effectively controlled by MOFED (C) Information from Treasury and Debt Management Directorates, MOF	NC
PI-18	Effectiveness of payroll controls	B+	(i) Personnel and payroll databases not integrated but payroll changes are fully supported (B) (ii) Procedures ensure that changes are reflected in payroll database without delay (A) (iii) Authority and basis for payroll changes are clear (B) (iv) Partial payroll audits have been undertaken (B) Information from HR Directorate, MOFED and sample BIs	NC
PI-19	Transparency, competition and complaints mechanisms in procurement	C+	(i) Four of the 6 listed transparency requirements are met (B) (ii) Reliable data is not available (D) (iii) No publication of procurement plans, or results of procurement complaints (C) (iv) Appeals machinery satisfies most criteria (B) Information from PPA, sample BIs and Chamber of Commerce	No comparison possible due to change in method of assessment
PI-20	Effectiveness of internal controls for non-salary expenditure	B	(i) Expenditure commitment controls effectively limit commitments to projected cash availability and balance of uncommitted budget for most types of expenditure with minor areas of exception. (B) (ii) Internal controls are comprehensive and generally understood (B) (iii) Compliance with rules is fairly high, but irregularities are still widespread (B) Information from Accounting and Inspection Directorates, MOFED and OFAG	No real change, due to apparent over-score in 2010
PI-21	Effectiveness of internal audit	B+	(i) Internal audit operational in all Federal BIs, focuses on systemic issues and substantially meets professional standards (B) (ii) Reports are issued regularly and used by all relevant parties (A) (iii) Management responses are prompt and fairly comprehensive (B) Information from Inspection Directorate, MOFED, Internal Audit Directorates at MoFED, BoH and ERA, and sample audit reports	↑
C (iii) Accounting, Recording and Reporting				
PI-22	Accounts Reconciliations	A	(i) Treasury records continuously reconciled with bank records of Single Treasury Account (A) (ii) Suspense and advance accounts cleared and reconciled promptly (A) Information from Treasury and Accounting Directorates, MOFED	↑

No.	Indicator	Scoring	Brief explanation and sources used	Performance change
PI-23	Availability of information on resources received by service delivery units	NA	Not applicable at Federal level	No change
PI-24	Quality and timeliness of in-year budget reports	C+	(i) Comparison to the budget is possible but no commitment data (C) (ii) Consolidated reports on the Federal BIs are prepared monthly and mostly issued within 6 weeks of the end of the month (B) (iii) Data generally reliable, but some minor problems identified by SAI (B) Information from Accounting and Treasury Directorates, MOFED and OFAG	No real change, due to apparent over-rating in 2010
PI-25	Quality and timeliness of annual financial statements	C+ ↑	(i) The latest Annual Financial Statements (EFY 2004) include full information on revenue, expenditure, and assets/liabilities (A) (ii) Annual Statements are submitted within 6 months of the end of the fiscal year (B □ □) (iii) Reports are presented in consistent format over time with disclosure of accounting standards (C ↑) Information from Accounting Directorate, MOFED, published accounts and OFAG	No change
C (iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	B+	(i) Annual coverage of audit now 100% of expenditure, using international standards (A) (ii) Reports submitted to Parliament within 4 months of receipt of Financial Statements by OFAG (A) (iii) A formal response is made but follow up is not systematic (B) Information from OFAG and PAC.	↑
PI-27	Legislative scrutiny of the annual budget law	B+	(i) Parliamentary scrutiny covers the MEFF as well as the detailed estimates (B) (ii) Procedures are well-established and respected and involve specialized committees (A) (iii) The BFC has a total of four months to examine the budget (A) (iv) Clear rules allow in-year amendments to the budget without approval of Parliament, but these allow extensive reallocations (B) Information from Budget Directorate and Budget and Finance Committee	↑
PI-28	Legislative scrutiny of external audit reports	D+	(i) Parliament completes its scrutiny within 8 months of receiving the OFAG report (C) (ii) In-depth hearings are held on the audit report with representatives of selected agencies (B) (iii) No separate recommendations are made by the PAC (D) Information from PAC and OFAG.	↓

No.	Indicator	Scoring	Brief explanation and sources used	Performance change
D. DONOR PRACTICES				
D-1	Predictability of Direct Budget Support	A	(i) The outturn was not more than 5% short of forecast in any year (A) (ii) Quarterly disbursements are known to MoFED before the start of the year (A) Information from COPCU, MOFED and donor agencies	Not scored in 2010, so no comparison possible
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	(i) Major donors provide forecasts of project disbursements (C) (ii) Donors do not provide quarterly reports of actual disbursements (D) Information from WB, ADB, EU, DFID and USAID	↓
D-3	Proportion of aid that is managed by use of national procedures	D	National procedures are applied on average to less than 50% of aid disbursed (D) Information from WB, ADB, EU, DFID and USAID	↓

NC = no change (in overall indicator score); NR = not rated (for lack of information)

ANNEX 2 PERSONS MET

Ministry of Finance and Economic Development

Director, Treasury Directorate	Woldeab Demissie
Coordinator, COPCU	Getachew Negera
Director, Budget Directorate	Teferi Demeke
Director, General Accounting Directorate	Demisu Lemma
Head, EMCP Coordination Unit	Mussa Mohammed
Director, IFI Cooperation Directorate	Fisseha Aberra
PSNP Technical Assistant	Hailegabriel Ashagre
EU National Programme Officer	Belachew Beyene
Director, Macroeconomic Policy & Management	Mezgebu Amha
Director, Debt Management Directorate	Tesfaye Alemu
Director, National Economic accounts Directorate	Leulseged Dechasa
Director, Bilateral Cooperation Directorate	Kokeb Misrak
Acting Manager & Senior Auditor, Internal Audit	Chali Negera
Senior Auditor, MoFED Internal Audit	Ashebir Demissie
Director, Inspection Directorate	Fekadu Agonafir
Director, Planning and Research Directorate	Temesgen Walelign
Director, Finance and Budget Support	Sihin Gubena
Debt Management Directorate, Director	Tesfaye Alemu
Debt Management Directorate, Senior Expert	Teklu Tefera
Expenditure Management and Control Program, Director	Mussa Mohammed
PBS Team Leader - Channel 1	Tiruwork Bekele
Government Account Directorate, Accountant	Amare Derese
Government Account Directorate, Accountant	Shishay Tefferi
Government Account Directorate, Accountant	Taju Gerir
PBS, Channel One, Accountant	Aklilu Tekle
Government Account Directorate, Accountant	Assefa Girmay
Government Account Directorate, Accountant	Tilahun Tsegaye
Government Account Directorate, Accountant	Amare Derese
Government Account Directorate, Accountant	Yilma Tessema
MoFED Human Resource Directorate, HR Expert	Habtamu Shewalem
MoFED Human Resource Directorate, HR Expert	Tiruwork Kebede
MoFED, Treasury Directorate, Treasury Accountant	Emebet Aklilu

Public Procurement and Property Administration Agency

Director General	Tsegaye Abebe
Former Director, Public Procurement Complaints Review	Waldeab Demissie
Director	Jonse Godefa

Public Procurement and Property Disposal Service

Director General	Yigezu Daba
Deputy Director General	Tesfaye Berhanu
Director, Procurement Administrative Directorate	Nebiyu Kokeb
Director, Procurement and Property Admin.	Tadere Negash

Ethiopian Revenue and Customs Authority

Domestic Taxes Branch office Directorate Director	Girma Tafesse
Tax Assessment, Procedure Design and Development Director	Tesfaye Mekuria
Tax Appeal Commission	
Secretary	Woy Wegayehu
Office of the Federal Auditor General	
Auditor General	Gemechu Dubiso
Director, Planning, Monitoring & Evaluation	Demelash Debele
Audit Director	Worku Timerga
Ministry of Education	
State Minister	Fuad Ibrahim
Office Head	Theodros Shewaget
Procurement Director	Gebreyesus G/Michael
Finance Director	Tamirat Yimam
Ministry of Health	
Internal Audit Directorate Director	Mehari Tekeste
Finance and Procurement Directorate, Director	Berhanemeskel Getachew
Finance and Procurement Directorate, Finance Expert	Wassihun Tilahun
Finance and Procurement, Govt account accountant	Tirsit Negash
Finance and Procurement, Grant account accountant	Fekadu Gerbi
Privatization and Public Enterprises Supervising Agency	
Director General	Beyene G/Meskel
Deputy Director General	Fetsum Mesfin
Finance and Supply Director	Zewdu Lema
Ethiopian Road Authority	
Internal Audit Director	Girma Teferra
Finance and Procurement Director	
Facility Management Director	
Plan and Program Director	
House of People's Representatives	
Chairperson, Public Accounts Committee	Girma Seifu Maru
Deputy Chair, Public Accounts Committee	Tshome Eshetu
Former Chairperson, Budget and Finance Committee	Wanna Wake
Addis Ababa Chamber of Commerce	
Secretary General	Getachew Regassa
World Bank	
Lead Economist and Sector Leader	Lars Christian Moller
Research Analyst	Ashagrie Moges
IMF	
Resident Representative	Jan Mikkelson

African Development Bank

Regional Financial Management Coordinator
Senior Financial Management Officer

Francis Kanyerere Mkandawire
Melaku Tadesse

European Union Delegation

Head of Section
Economist/PFM Specialist

Jeroen Willems
Ephraim Zewdie

Department for International Development, UK

Governance Adviser
Finance Manager

Ahmed Mohammed
John Moffat

USAID

Controller
Supervisory Financial Analyst

Frank Monticello
Kelemwa Kebede

Ireland Aid

Accountant/IT Officer

Henock Abbay

Participants at Workshop on October 20, 2014

Ser.No.	Name	Organization
1	Girma Mengiste	MoFED
2	Dilnessa Swenet	MoFED
3	Girma Tafesse	ERCA
4	Tony Bennett	WB-consultant
5	Berhanu Assefa	DFATD-Canada
6	Nebiyu Kokeb	PPPA
7	Jonse Gedefa	FPPA
8	Getachew Negera	MoFED
9	Tesfaye Mergia	ERCA
10	Demissie Lemma	MoFED
11	Fekadu Agonafir	MoFED
12	Chali Negewo	MoFED
13	Zeru G/Selassie	WB-consultant
14	Peter Fairman	WB-consultant
15	Mesfin Workneh	MoFED
16	Meron Tadesse	WB
17	Mussa Mohammed	MoFED
18	Weldegebriel Kebedew	MoFED

Ser.No.	Name	Organization
19	Tefera Mohammed	MoFED
20	Tesfaye Ayele	WB
21	Bemrew Alemu	MoFED
22	Dessu Gebre	MoFED
23	Hussen Oumer	MoFED
24	Henock Abbay	Irish Aid
25	Meron Gezaheng	Irish Aid
26	Getnet Haile	WB-consultant
27	Degu Lakew	MoFED
28	Wondimeneh Lissanework	MoFED
30	Kassahun Guta	MoFED
31	Muluken Assegid	MoFED
32	Tesfaye Berhanu	PPPDA
33	Yigezu Daba	PPPDA
34	Tsegaye Abebe	FPPDA
35	Ahmed Mohammed	DFID
36	Haji Ibsa	MoFED
37	Simon Chirwa	WB
38	Mezgebu Amha	MoFED
39	Belachew Beyene	MoFED
40	Ephrem Zewdu	EU
41	Demlew Zerihun	PM/HPP
42	Shasho Mekonnen	OFAG
43	Teferi Demeke	MoFED
44	Sihin Gobena	MoFED
45	Woldeab Demissie	MoFED
46	Teshome Eshetu	H.P.R

ANNEX 3 DOCUMENTS SEEN

Ministry of Finance and Economic Development (2007) Manual 3 GOE Accounting System, Volume 2, Chart of accounts, version 1.3

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World Bank (WB): Country Partnership Strategy (August 2012)

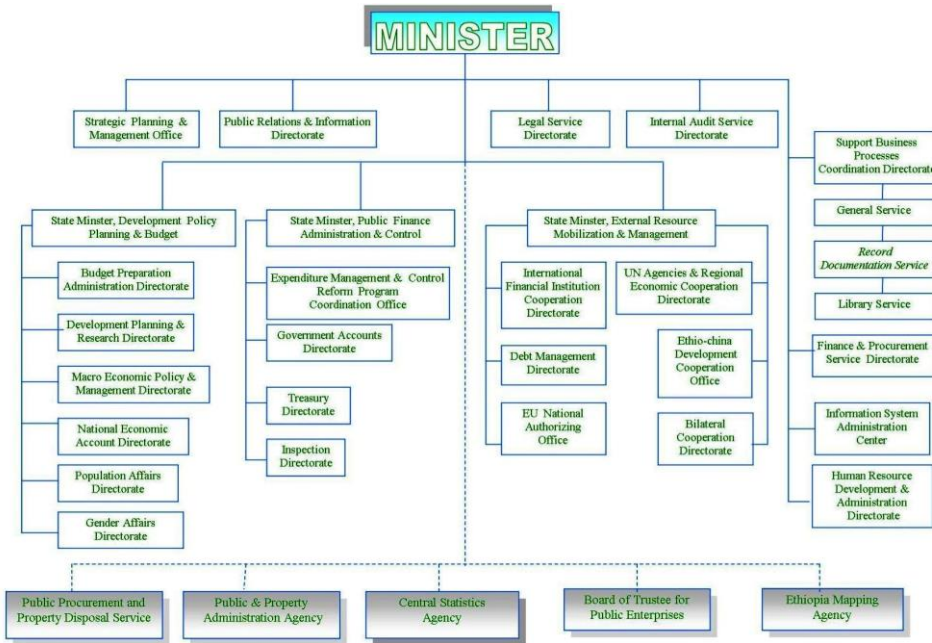
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ANNEX 4 MoFED ORGANIZATION CHART



ANNEX 5 PI-1 AND PI-2 CALCULATIONS

Table A5. 1 Fiscal Years for Assessment

Year 1 =	2010/11	=EFY 2003
Year 2 =	2011/12	=EFY 2004
Year 3 =	2012/13	=EFY 2005

Table 2

Data for year = 2010/11						
ETB millions	budget	actual	adjusted budget	deviation	absolute deviation	percent
Organs of State	247	515	272	243	243	89.5%
Justice & Security	1325	1868	1,458	410	410	28.1%
Defense	4400	4619	4,841	-222	222	4.6%
General Service	1156	1990	1,272	718	718	56.5%
Agric & Rural Dev	2683	2593	2,952	-359	359	12.2%
Water Resources & Energy	1449	1327	1,594	-267	267	16.8%
Trade & Industry	196	171	216	-45	45	20.7%
Mines	101	127	111	16	16	14.3%
Transport & Comm'n	888	1217	977	240	240	24.6%
Construction	10745	12893	11,821	1,072	1,072	9.1%
Education	10290	9860	11,321	-1,461	1,461	12.9%
Information & Communication	183	16	201	-185	185	92.1%
Culture and Sport	193	216	212	4	4	1.7%
Health	247	682	272	410	410	151.0%
Labor & Social Affairs	20	26	22	4	4	18.2%
Prevention & Rehab'n	12	12	13	-1	1	9.1%
Transfer	1045	1011	1,150	-139	139	12.1%
Other	117	116	129	-13	13	9.9%
Subsidy to Regions	23556	25929	25,915	14	14	0.1%
Miscellaneous	400	0	440	-440	440	100.0%
allocated expenditure	59253	65188	65,188	0	6,262	
Contingency	1,060	71				
total expenditure	60,313	65,259				
overall (PI-1) variance						8.2%
composition (PI-2) variance						9.6%
contingency share of budget						0.1%

ETB mn	budget	actual	adjusted budget	deviation	absolute deviation	percent
Organs of State	404	610	420.8	189.2	189.2	45.0%
Justice & Security	1,908	2,554	1,987.2	566.8	566.8	28.5%
Defense	6,500	6,337	6,769.7	-432.7	432.7	6.4%
General Service	1,700	2,939	1,770.5	1,168.5	1,168.5	66.0%
Agric & Rural Dev	2,971	3,548	3,094.3	453.7	453.7	14.7%
Water Resources & Energy	3,265	2,498	3,400.5	-902.5	902.5	26.5%
Trade & Industry	301	204	313.5	-109.5	109.5	34.9%
Mines	167	101	173.9	-72.9	72.9	41.9%
Transport & Communications	1,339	1,052	1,394.6	-342.6	342.6	24.6%
Construction	14,182	16,597	14,770.4	1,826.6	1,826.6	12.4%
Education	13,457	13,076	14,015.3	-939.3	939.3	6.7%
Culture and Sport	347	255	361.4	-106.4	106.4	29.4%
Health	351	846	365.6	480.4	480.4	131.4%
Labor & Social Affairs	33	58	34.4	23.6	23.6	68.8%
Prevention & Rehabilitation	17	15	17.7	-2.7	2.7	15.3%
Transfer	1,045	1,011	1,088.4	-77.4	77.4	7.1%
Other	110	76	114.6	-38.6	38.6	33.7%
Subsidy to Regions	30,556	30,556	31,823.8	-1,267.8	1,267.8	4.0%
Miscellaneous	400	0	416.6	-416.6	416.6	100.0%
allocated expenditure	79,053	82,333	82,333.0	0.0	9,417.8	
contingency	1,060	232				
total expenditure (note 1)	80,113	82,565				
overall (PI-1) variance						3.1%
composition (PI-2) variance						11.4%
contingency share of budget						0.3%

Table 4						
Data for year = 2012/13						
ETB millions	budget	actual	adjusted budget	deviation	absolute deviation	percent
Organs of State	399	642	400.5	241.5	241.5	60.3%
Justice & Security	2,208	2,718	2,216.1	501.9	501.9	22.6%
Defense	6,500	6,529	6,523.7	5.3	5.3	0.1%
General Service	2,158	3,180	2,165.9	1,014.1	1,014.1	46.8%
Agric & Rural Dev	1,042	1,949	1,045.8	903.2	903.2	86.4%
Water Resources & Energy	3,334	3,335	3,346.2	-11.2	11.2	0.3%
Trade & Industry	416	297	417.5	-120.5	120.5	28.9%
Mines	140	136	140.5	-4.5	4.5	0.0%
Transport & Communications	1,442	994	1,447.3	-453.3	453.3	31.3%
Construction	17,730	17,463	17,794.8	-331.8	331.8	1.9%
Education	16,506	14,897	16,566.3	-1,669.3	1,669.3	10.1%
Culture and Sport	368	364	369.3	-5.3	5.3	1.4%
Health	407	894	408.5	485.5	485.5	118.9%
Labor & Social Affairs	58	55	58.2	-3.2	3.2	5.5%
Prevention & Rehabilitation	19	16	19.1	-3.1	3.1	16.1%
Transfer	1,012	1,014	1,015.7	-1.7	1.7	0.2%
Other	86	70	86.3	-16.3	16.3	18.9%
Subsidy to Regions	35,556	35,556	35,685.9	-129.9	129.9	0.4%
Miscellaneous	400	0	401.5	-401.5	401.5	100.0%
allocated expenditure	89,781	90,109	90,109.0	0.0	6,303.1	
Contingency	1,360	18				
total expenditure	91,141	90,127				
overall (PI-1) variance						1.1%
composition (PI-2) variance						7.0%
contingency share of budget						0.0%

Table 5 - Results Matrix

year	for PI-1	for PI-2 (i)	for PI-2 (ii)
	total exp. deviation	composition variance	contingency share
2010/11	8.2%	9.6%	0.1%
2011/12	3.1%	11.4%	
2012/13	1.1%	7.0%	

Score for indicator PI-1:

A

Score for indicator PI-2 (i)

B

Score for indicator PI-2 (ii)

A

B+

Expenditure includes recurrent expenditure and domestically financed capital expenditure. Head 450 for Debt Service is not expenditure and has been omitted.

Accounts for the last year are not audited. Line items do not always add to totals.

Note 1: the totals for 2011/12 are the sum of recurrent and domestic capital expenditure for all the sub-functional heads. The total shown in GAD accounts for actual recurrent expenditure in code 400 is about ETB 12.8 billion more than the sum of codes 410, 420, 430, 450, 460 and 470.

RE-WORKING OF THE 2010 ASSESSMENT USING THE NEW METHODOLOGY

Table 6

Data for year = 2006/07

ETB millions	budget	actual	adjusted budget	deviation	absolute deviation	percent
Organs of State	100	153	93.4	59.6	59.6	63.7%
Justice & Security	583	547	544.8	2.2	2.2	0.4%
Defense	3,000	2,564	2,803.4	-239.4	239.4	8.5%
General Service	855	818	799.0	19.0	19.0	2.4%
Agric & Rural Dev	2,373	2,476	2,217.5	258.5	258.5	11.7%
Water Resources	675	650	630.8	19.2	19.2	3.1%
Trade & Industry	153	119	143.0	-24.0	24.0	16.8%
Mining and Energy	1,283	1,219	1,198.9	20.1	20.1	1.7%
Transport & Communications	274	191	256.0	-65.0	65.0	25.4%
Construction	2,710	2,047	2,532.4	-485.4	485.4	19.2%
Education	3,580	2,959	3,345.3	-386.3	386.3	11.5%
Information & Communication	45	36	42.1	-6.1	6.1	14.4%
Culture and Sport	110	109	102.8	6.2	6.2	6.0%
Health	119	223	111.2	111.8	111.8	100.5%
Labor & Social Affairs	32	12	29.9	-17.9	17.9	59.9%
Prevention & Rehabilitation	189	169	176.6	-7.6	7.6	4.3%
Transfer	12	15	11.2	3.8	3.8	33.8%
Other	96	95	89.7	5.3	5.3	5.9%
Subsidy to Regions	9,056	9,543	8,462.4	1,080.6	1,080.6	12.8%
Miscellaneous	400	19	373.8	-354.8	354.8	94.9%
allocated expenditure	25,645	23,964	23,964.0	0.0	3,172.8	
contingency	460	29				
total expenditure	26,105	23,993				
overall (PI-1) variance						-8.1%
composition (PI-2) variance						13.2%
contingency share of budget						0.1%

Table 7						
Data for year = 2007/08						
ETB millions	budget	actual	adjusted budget	deviation	absolute deviation	percent
Organs of State	101	193	99.7	93.3	93.3	93.6%
Justice & Security	729	687	719.6	-32.6	32.6	4.5%
Defense	3,500	3,899	3,454.8	444.2	444.2	12.9%
General Service	727	751	717.6	33.4	33.4	4.7%
Agric & Rural Dev	2,483	2,332	2,450.9	-118.9	118.9	4.9%
Water Resources & Energy	910	867	898.2	-31.2	31.2	3.5%
Trade & Industry	159	192	156.9	35.1	35.1	22.3%
Mining and Energy	82	74	80.9	-6.9	6.9	8.6%
Transport & Communications	381	232	376.1	-144.1	144.1	38.3%
Construction	3,741	3,703	3,692.7	10.3	10.3	0.3%
Education	3,970	3,512	3,918.7	-406.7	406.7	10.4%
Information & Communication	69	57	68.1	-11.1	11.1	16.3%
Culture and Sport	135	122	133.3	-11.3	11.3	8.4%
Health	140	369	138.2	230.8	230.8	167.0%
Labor & Social Affairs	16	14	15.8	-1.8	1.8	11.4%
Prevention & Rehabilitation	24	31	23.7	7.3	7.3	30.9%
Transfer	1,347	1,371	1,329.6	41.4	41.4	3.1%
Subsidy to Regions	13,556	13,709	13,380.8	328.2	328.2	2.5%
Miscellaneous	510	44	503.4	-459.4	459.4	91.3%
allocated expenditure	32,580	32,159	32,159.0	0.0	2,448.0	
contingency	960	20				
total expenditure	33,540	32,179				
overall (PI-1) variance						-4.1%
composition (PI-2) variance						7.6%
contingency share of budget						0.0%

Table 8							
Data for year =	2008/09						
ETB millions	budget	actual	adjusted budget	deviation	absolute deviation	percent	
Organs of State	174	193	137.9	55.1	55.1	39.9%	
Justice & Security	1000	687	792.6	-105.6	105.6	13.3%	
Defense	4000	3899	3,170.3	728.7	728.7	23.0%	
General Service	736	751	583.3	167.7	167.7	28.7%	
Agric & Rural Dev	2600	2332	2,060.7	271.3	271.3	13.2%	
Water Resources	1109	867	879.0	-12.0	12.0	1.4%	
Trade & Industry	136	192	107.8	84.2	84.2	78.1%	
Mining	100	74	79.3	-5.3	5.3	6.6%	
Transport & Communications	373	232	295.6	-63.6	63.6	21.5%	
Construction	5782	3703	4,582.6	-879.6	879.6	19.2%	
Education	4974	3512	3,942.2	-430.2	430.2	10.9%	
Information & Communication	89	57	70.5	-13.5	13.5	19.2%	
Culture and Sport	162	122	128.4	-6.4	6.4	5.0%	
Health	149	369	118.1	250.9	250.9	212.5%	
Labor & Social Affairs	16	14	12.7	1.3	1.3	10.4%	
Prevention & Rehabilitation	27	31	21.4	9.6	9.6	44.9%	
Transfer	1365	1371	1,081.9	289.1	289.1	26.7%	
Other	0	123	0.0	123.0	123.0	#DIV/0!	
Subsidy to Regions	17539	13709	13,900.8	-191.8	191.8	1.4%	
Miscellaneous	400	44	317.0	-273.0	273.0	86.1%	
allocated expenditure	40731	32282	32282	0.0	3,962.0		
contingency	1060	20					
total expenditure	41791	32302					
overall (PI-1) variance							-22.7%
composition (PI-2) variance							12.3%
contingency share of budget							0.0%

Table 9 - Results Matrix			
Year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2006/07	-8.1%	13.2%	0.1%
2007/08	-4.1%	7.6%	
2008/09	-22.7%	12.3%	
Score for indicator PI-1:			B
Score for indicator PI-2 (i)		C	
Score for indicator PI-2 (ii)		A	C+

Source: Government Accounts Directorate, Team calculations.

ANNEX 6 PI-3 CALCULATION

Description	EFY 2003 (2010/2011)		EFY 2004 (2011/2012)		EFY 2005 (2012/2013)	
	Approved Budget	Actual Revenue	Approved Budget	Actual Revenue	Approved Budget	Actual Revenue
	ETB millions	ETB millions	ETB millions	ETB millions	ETB millions	ETB millions
Tax Revenue	41,100	47,542	70,001	68,929	87,093	75,911
Tax on Income, Profit and Capital Gain	10,858	12,521	18,561	19,999	21,911	19,437
Domestic Indirect Taxes	9,811	12,049	18,540	16,542	23,458	19,644
Tax On Foreign Trade	20,431	22,973	32,900	32,388	41,724	36,830
Non-Tax Revenue	7,267	7,791	8,816	10,395	7,786	13,484
Administrative Fees and Charges	362	669	508	833	796	991
Sales of Public Goods and Services	1,135	935	1,815	1,184	1,636	1,557
Government Investment Income	5,491	4,168	4,137	6,396	4,313	8,543
Miscellaneous Revenue	278	2,018	2,356	1,981	1,042	2,393
Capital Revenue	5	1	5	48	2	0
Sales of Movable & Immovable Properties	5	1	5	48	2	0
TOTAL	48,372	55,334	78,822	79,372	94,881	89,395
Actual / Approved		114.4%		100.7%		94.2%

Note:

- Privatization Proceeds and Collection of Principal from On-Lending are treated as financing items by IMF, not revenue, so are omitted in this table
- Stamp sales and duty are included under domestic indirect taxes.