

Federal Government of Ethiopia
Ministry of Finance and Economic Development

HARARI REGIONAL GOVERNMENT PEFA
ASSESSMENT REPORT

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Currency and Exchange Rates

Currency Unit = Ethiopian Birr (ETB)

€1=ETB 18.2556 (As of April 26, 2010)

US\$ 1 = ETB 13.6198 (As of April 26, 201)

Government Fiscal Year (EFY) from July 8 – July 7

Ethiopian Fiscal Year (EFY)	Gregorian (European Year Equivalent)
1996	2003/2004
1997	2004/2005
1998	2005/2006
1999	2006/2007
2000	2007/2008
2001	2008/2009
2002	2009/2010
2003	2010/2011

Abbreviations and Acronyms

AfDB	African Development Bank
AFRITAC	IMF African centre (regional centre) for technical assistance
BI	Budget Institutions (Bureaus, offices, agencies, institutions, and other budgetary units)
BoE	Bureau of Education
BOFED	Bureau of Finance and Economic Development
BoH	Bureau of Health
BPR	Business Process Reengineering
BS	Budget Support
HPRG	Harari People Regional Government
CBE	Commercial Bank of Ethiopia
CAD	Central Accounts Department
CG	Central Government
COFOG	Classification of Function of Government
CSR	Civil Service Reform Program
DFID	Department for International Development (UK)
DLDP	District Level Decentralization program
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Program
ETB	Ethiopian Birr
FD	Finance Department
FDRE	Federal Democratic Republic of Ethiopia
FY	Financial Year or Fiscal Year
GDP	Gross Domestic Product
GFSM	Government Financial Statistics Manual
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HRD	Human Resource Department
IBEX	Integrated Budget and Expenditures
ID	Inspection Department
IDA	International Development Agency (World Bank)
IAPU	Internal Audit Processes Unit
IMF	International Monetary Fund
IMIS	Integrated Management Information System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISPPA	International Standards for the Professional Practice in Internal Audit
IT	Information Technology
MEFF	Macroeconomic and Fiscal Framework
MTEF	Medium term Expenditure Framework
MOFED	Ministry of Finance and Economic Development

NBE	National Bank of Ethiopia
OFAG	Office of the Federal Auditor General
ORAG	Office of the Regional Auditor General
PBS	Protection of Basic Services
PE	Public enterprises
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIP	Public Investment Program
PPA	Public Procurement and Property Administration Agency
PSCAP	Public Sector Capacity Building Program
RA	Revenue Authority
TIN	Taxpayer Identification Number
TOR	Terms of Reference
UNDP	United Nations Development Program
UNICEF	United Nations Children Fund
UNCDF	United Nations Capital Development Fund
UNFPA	United Nations Population Fund
VAT	Value Added Tax
WB	World Bank
YTD	Year to date

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FOREWORD AND ACKNOWLEDGEMENT

The PEFA assessment on the Harari People Regional Government was conducted from April 10 to April 16, 2010. The assessment was carried out by a team of two national consultants, i.e., Getachew Gebre and Getnet Haile. To gather information, the team had working sessions with officials and experts in the Regional Council, Bureau of Finance and Economic Development (BoFED), Revenue Authority (RA), Office of the Regional Auditor General (ORAG), Bureaus of Education (BoE) and Health (BoH), and the Harari Chamber of Commerce and Sectoral Association (HCCSA).

The team is particularly grateful to officials and experts at BoFED, ORAG and RA, especially Ato Muhadin Ahmed (Deputy Head of BoFED), Ato Abdubasit Abubakar, W/ro Ekram Ziad (Audit Execution and Implementation Process owner) and Ato Abdulhakim Abdurahman (Finance, Procurement and Property Administration Support Process owner).

SUMMARY OF ASSESSMENT

1. Integrated Assessment of PFM performance

This section summarizes the detailed indicator led-assessment along the six core dimensions identified in the performance measurement framework. Table 1 summarizes the scoring.

(a) Credibility of the budget (PIs 1- 4)

As revealed by performance indicators 1-3, the budget was by and large implemented as planned except performance indicator 2. The significant deviation indicated by the composition of expenditure outturn compared to the original approved budget has highly contributed to weaken budget credibility. On the other hand due to tight internal control system, strict rules and regulations and strong culture of compliance, the stock of arrears was significantly low, below 2% for the EFY 2000 and 2001 while no arrears were reported in EFY 1999.

(b) Comprehensiveness and Transparency

The scores of performance indicators under the comprehensiveness and transparency reveal mixed results. The fairly good classification of the budget that allows tracking of expenditures and the insignificant level of unreported extra budgetary expenditures (with the exception of Global Fund expenditures) reveal very good comprehensiveness and transparency. On the other hand, the lack of comprehensiveness of information included in the budget documentation and the lack of access to key fiscal information signifies poor comprehensiveness and transparency.

(c) Policy based budgeting

The annual budget process is by and large conducted in an orderly way. There is a fixed budget calendar which allows sector bureaus/offices sufficient time to process their budget proposals in accordance with guidelines issued by BoFED. However, there are problems with the timely approval of the budget by the legislature. In addition, no multi-year fiscal forecast on a rolling annual basis has been introduced even though fixed multi-year sectoral development programs and strategic plans are operational.

(d) Predictability and control in budget execution

Taxes raised by the regional government have legal basis. The income tax is comprehensive and clear with tax payers having easy access to information on tax liabilities. A tax appeal system was setup. A cash flow system has been operational. Bureaus are able to commit expenditure within the year based on approved budget. Procurements are governed by proclamation and directives. However, there are no compiled data on the methods used to award public contracts. Internal audit is operational in the majority of the bureaus/offices but focus on transaction audits than systemic audit.

There is lack of complete accounts reconciliation between tax assessment, collections, arrears records and receipts by treasury. Tax arrears are not recorded and no compiled information is available in this regard.

(e) Accounting recording and reporting

Reconciliation of all treasury controlled bank accounts is carried out every month. In-year budget reports are prepared by BoFED quarterly within four weeks of the end of period with no material concern with the accuracy of the data.

(f) External Scrutiny and Audit

The Office of the Regional Auditor General (ORAG) focuses on financial and compliance audits. . In-depth hearing of key findings of ORAG is not conducted by the legislature. However, the legislature issues recommendations on actions to be implemented by the executives. In EFY 2002 the Finance and Budget Committee started to conduct hearings in the presence of ORAG.

2. Implication for Budgetary Outcome

This section analyses the extent to which the assessed PFM system support or affect the overall achievement of budgetary outcome with respect to fiscal discipline, strategic allocation of resources and efficiency of service delivery. In spite of the insignificant level of arrears and regularity of account reconciliation, the limited information included in the budget documentation, inadequate public access to key fiscal information, the insufficient time spent by the legislature to review the budget proposal and the absence of ex-ante review of budget adjustment (even though provided by the budget proclamation) negatively impact on the credibility of the budget and fiscal discipline.

There are strategic plans and sector development programs which are costed. However, these are not consistent with fiscal forecast and annual budget. The lack of multi-year fiscal forecast and functional allocation which serves as a framework for annual budgetary allocation potentially detracts from achieving an optimum strategic allocation of resources.

The lack of compiled data on the types and methods of procurements and especially the use of open competition for award of contract have limited the opportunity to analyze the extent to which procurement is cost- effective and thus the extent to which services are being delivered as efficiently as possible.

3. Prospects for Reform Planning and Implementation

Several PFM reform programs have been carried out for several years through the Public Sector Capacity Building Program (PSCBP) the major component of which is the Expenditure Management and Control Program (EMCP). Currently, the reforms covered under the EMCP are legal framework, budget, accounts, internal audit and control, cash management, procurement, government property management and financial information systems. Future challenges include deepening the reform through the EMCP, BPR and Human Resource Management strengthening programme, especially addressing the civil service pay system,

**Table1. THE Harari People National Regional State,
PEFA PERFORMANCE INDICATORS (2007-2010)¹**

A. PFM OUT-TURNS: Credibility of the budget		Score 2007	Score 2010
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	B
PI-2	Composition of expenditure out-turn compared to original approved budget	D	D
PI-3	Aggregate revenue out-turn compared to original approved budget	B	A
PI-4	Stock and monitoring of expenditure payment arrears	NU	B+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		Score 2007	Score 2010
PI-5	Classification of the budget	A	B
PI-6	Comprehensiveness of information included in budget documentation	A	D
PI-7	Extent of unreported government operations	NS	D+
PI-8	Transparency of Inter-Governmental Fiscal Relations	NA	NA
PI-9	Oversight of aggregate fiscal risk from other public sector entities	NU	A
PI-10	Public Access to key fiscal information	C	C
C. BUDGET CYCLE		Score 2007	Score 2010
C (i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	A	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D+
C (ii) Predictability & Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	B	B+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	B
PI-15	Effectiveness in collection of tax payments	C+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	A	C+
PI-17	Recording and management of cash balances, debt and guarantees	NA/NU	C+
PI-18	Effectiveness of payroll controls	A	B+
PI-19	Competition, value for money and controls in procurement	C+	C
PI-20	Effectiveness of internal controls for non-salary expenditures	A	B
PI-21	Effectiveness of internal audit	C+	C+
C (iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	B	C+
PI-23	Availability of information on resources received by service delivery units	A	A
PI-24	Quality and timeliness of in-year budget reports	A	C+
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	D+	C
PI-27	Legislative scrutiny of the annual budget law	D+	D+
PI-28	Legislative scrutiny of external audit reports	C+	C+
D. DONOR PRACTICES		Score 2007	Score 2010
D-1	Predictability of Direct Budget Support	N/A	N/A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	NU	D+
D-3	Proportion of aid that is managed by use of national procedures	NU	D
HLG-1	Predictability of transfers from Federal Government	N/U	A

¹ Scoring is assigned based on best international practices and corresponds to a scale of four (4) points: A (best performance) to D, with the possibility of intermediate scoring (+)

1. INTRODUCTION

1.1 Objective

The overall objective of the assessment is to gauge the quality of public financial management (PFM) at the federal and regional levels. Specifically, in addition to providing donors with an assessment of the regions PFM, it is intended that the information included in the Region's PEFA will be of value to the Regional Government in its ongoing efforts to reform and improve the quality of its financial management systems.

The assessment of the PFM performance in Harari People Regional State (HPRS) is conducted at bureau level using the PFM Framework.

1.2 Process

A team of four consultants was contracted to conduct PEFA assessment of the Federal Government, the City Administration of Addis Ababa, the Amhara, Oromiya, Southern Nations Nationalities and Peoples, Benishangul Gumuz and Harari People Regional Governments. This report was prepared by Getachew Gebre and Getenet Haile, who visited Harari from April 10 to April 16, 2010. The contact point was the Bureau of Finance and Economic Development (BoFED) where most of the meetings were held with the different departments. Other public bodies visited include the Office of the Regional Auditor General (ORAG), the Revenue Authority (RA), the Regional Council, and the Bureaus of Education and Health. The team also visited the Harari Chamber of Commerce and Sectoral Association (HCCSA).

The first draft was finalized in early June. Following comments from the two international consultants on the team, a second draft was prepared and submitted to EU on 7 July. Comments were received from the PEFA Secretariat and from the Harari Regional Government on 13 September, just prior to a PEFA workshop held in Addis Ababa during 16-17 September, 2010. The workshop was organized by MOFED and attended by representatives from all the governments that were the subject of the PEFA assessments.

2. REGION BACKGROUND INFORMATION

2.1. DESCRIPTION OF REGION'S ECONOMIC SITUATION

According to the 1994 constitution the Harari People Regional State is one of the 9 Regional States of the Federal Democratic Republic of Ethiopia. The Region is bordered by the Oromiya Regional Government. The Region has a total area of 340 sq.kms of which the rural area constitutes 94%. Unlike the other regions, there are no woreda governments, only kebele administrations totaling nine, of which 3 are rural.

As per the 2007 census, the population of the Region was 183,344 of which 50.5% are urban dwellers. The capital city, Harar, was named as "City of Peace and Solidarity by UNESCO. The city has two parts, the old town which is called Jugol and the new town. Jugol is surrounded by high and thick wall built during the Reign of Amir-ovur-Dbnalndsir (1551-1557).

By far the largest sector of the region's economy in terms of value added is the service sector (distributive and other services) accounting for an average of 54% during EFY988-99).

Agriculture and Industry (with about equal share) together claim 46.1%. The service sector is largely dominated by retail trade, transport service and hotels and restaurants. The industrial sector is dominated by large and medium scale manufacturing and cottage and handicrafts while crop production and forestry dominate the agricultural sector.

During EFY 1999-2000 significant achievements have been recorded in the education sector. The primary school enrollment rate increased from 109% in 1998 to 115.4% in 2000, registering 18.6% growth. During the same period the secondary school participation rate increased from 66% to 79.4% with the female participation rate increasing from 50% to 60.6%.

Similarly achievements were registered in the health sector. Health coverage has increased from 77.6% in 1997 to 89.8% in 2000.

2.2. DESCRIPTIONS OF BUDGETARY OUTCOME

2.2.1. Fiscal performance

Over the period EFY1999 to 2001 total revenue of the region increased by 10.1% despite a negligible increase (0.7%) over EFY 2000. During the same period, aggregate expenditure increased by 38.1% registering a significant increase over EFY 2000. In EFY 1999 and 2000 the amount of revenue collected was higher than the total expenditure registering a surplus of ETB 12.86 million and ETB 9.36 million respectively. On the other hand, a short fall (deficit) of 26.53 million Birr was registered in FY 2001 which was financed by savings from EFY 1999 and 2000. (Refer to Table).

2.2.2. Allocation of Resources

Over the assessment period (EFY 1999 – 2001) on average the share of the social sector was about 40.5% while that of the administration and general service and the economic sector was 30.39% and 18.8% respectively. The higher share in the social sector was due to the significant shares of education and capacity building (21.7%) and health (14.3%) sectors. Over the same period, Administration and General Services declined from 30.1% in 1999 to 27.7% in 2000, while the share of the economic and social sectors increased. The increased share in the economic sector was accounted for by the drastic expenditure in construction and urban development. (Refer to Table 3).

Over the assessment period, a continuous increase in the share of recurrent expenditure was registered. As a result, the share of capital expenditure decreased from 39.75% to 15.27% in 2001. The major decrease in capital expenditure was observed in the amount of transfer to the Municipality and the share of Trade and Industry.

**TABLE 2: HPRS Overall Fiscal Performance in Million ETB
EFY1999-EFY2001**

(In millions of current ETB and in %)

ITEMS	EFY1999 (2006/07)	EFY2000 (2007/08)	EFY2001 (2008/09)	PERCENT (%) GROWTH BETWEEN EFY1999 & EFY2001
Total revenue	158.05	159.08	173.98	10.10%
<i>Tax revenue</i>	20.75	28.62	26.07	25.64%
<i>Non tax revenue</i>	9.77	4.46	12.43	27.23%
<i>Federal Subsidy</i>	127.33	126.00	135.48	6.40%
Total expenditure	145.91	149.72	200.51	
- <i>Non-interest expenditure</i>	145.91	149.72	200.51	38.10%
- <i>Interest expenditure</i>	-	-	-	
Aggregate balance	12.86	9.36	-26.53	
Primary balance	12.86	9.36	-26.53	
Use/accumulation of retained earnings	- 12.86	-9.36	26.53	

Source: BoFED, IBEX

Table 3: Actual budgetary allocations by sectors (as a percentage of total expenditures)

	1999	2000	2001
Administration and General Service	30.07%	33.38%	27.73%
Organs of State	13.16%	13.87%	11.55%
Justice and Security	13.45%	15.05%	11.10%
General Public Services	2.86%	3.58%	4.58%
Others	0.60%	0.87%	0.50%
Economy	17.44%	15.66%	23.22%
Agriculture & Natural Resource	4.37%	4.06%	2.56%
Water, Mining & Energy Resource Dev Bureau	0.00%	0.00%	0.00%
Industry And Trade	11.08%	3.74%	2.04%
Construction and Urban Development	1.99%	7.85%	18.62%
Others	0.00%	0.00%	0.00%
Social	39.33%	42.28%	39.81%
Education, training and Capacity Building	21.07%	23.34%	20.77%
Culture and Sport	4.40%	4.33%	4.58%
Health	13.87%	14.60%	14.46%
Others	0.00%	0.00%	0.00%
Contingency	13.15%	8.69%	9.24%
Others	13.15%	8.69%	9.24%
Grand Total	100.00%	100.00%	100.00%

Source: Compiled from IBEX

2.3. DESCRIPTION OF LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM

Legal Framework: The Constitution of the Harari People National Regional Government is the main legal reference for the PEFA evaluation. It establishes the objectives, the organization, the powers and functions of the regional Government and of all its organs. There are proclamations and regulations with regard to the functions, responsibilities, authorities and procedures of the various institutions in the PFM system. These are the Financial Administration Proclamation, External Audit Proclamation, Tax Proclamations, and Procurement Proclamation, annual and in year supplementary budget Proclamations.

Institutional framework: The Bureau of Finance and Economic Development (BOFED) is the main institution for budget preparation and execution (including treasury, accounts, procurement and, internal audit and control functions). It interacts with the sector bureaus. The Regional Council approves the draft budget and the yearly financial accounts. The Bureau of the Auditor General is in charge of external audit of budgetary institutions.

Each budgetary institution has a *Finance, procurement and property administration* unit which is in charge of the preparation of budget and accounts. Each budgetary institution has a separate internal audit section which is in charge of financial, performance and special audits.

The Revenue Authority is responsible for the collection of the regional revenue.

The Regional Cabinet is responsible for the endorsement of the budget prepared by BoFED and of submission of the budget to the Regional Council. The Budget and Finance Standing Committee reviews the recommended budget and presents with its recommendation to the Regional Council. In addition it follows up the implementation of the audit findings of the Auditor General.

The key features of the PFM system: The PFM system of the region is computerized to the extent of accounting function using a system called IBEX. Each budgetary institution at the regional level maintains its respective budget and accounts using the system and issues a monthly financial report to BoFED. As the Wide Area Network is not yet in place, the printed monthly reports of each budgetary institution will be encoded in the BoFED IBEX database. The report generates revenue and expenditure reports, budget execution reports, trial balances and many more reports at different report filtering criteria including by budgetary institutes, by functions, and by reporting period including a consolidated reports. The minimum reporting period is a calendar month.

The Office of Regional Auditor General (ORAG) conducts financial and performance audit in each budgetary institutions. ORAG also audits the annual financial reports of the region compiled by BoFED.

3. Assessment of the PFM system, processes and institutions

3.1. Budget credibility

To carry out this assessment, this section considers the following four indicators to determine whether the budget is sufficiently realistic and is being implemented as planned.

1. Results of aggregate expenditure;

2. Results of expenditure composition;
3. Results of aggregate revenue;
4. Arrears.

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

The ability to implement budget expenditures within the amounts originally forecasted is a key factor for regional government's capacity to keep fiscal discipline. (Refer to Annex 1)

(i) *Difference between Actual primary expenditure and originally-budgeted primary expenditure*

The deviation in primary expenditure during the EFY 1999, 2000 and 2001 was 0.1%, 7.8 % and 11.5% respectively. (Refer to Table 4 and 5 below).

TABLE 4: HARARI REGIONAL STATE: TOTAL BUDGET EXECUTION, PRIMARY RECURRENT AND CAPITAL EXPENDITURES, EFY1999-200 – (In millions of ETB)

YEARS	EXPENDITURES	APPROVED BUDGET (I)	ACTUAL (II)	EXECUTION RATE (III = II / I)	DEVIATION IN PRIMARY EXPENDITURE (IV = 100% - III)
EFY 1999 (2006/07)	Recurrent expenditures ²	98.37	87.49	88.94%	-11.06%
	Capital expenditures ³	46.61	57.70	123.80%	23.80%
	TOTAL	144.98	145.19	100.14%	0.14%
EFY 2000 (2007/08)	Recurrent expenditures ¹	99.97	112.22	112.26%	12.26%
	Capital expenditures ²	62.39	37.50	60.10%	-39.9%
	TOTAL	162.36	149.72	92.21%	-7.79%
EFY 2001 (2008/09)	Recurrent expenditures ¹	171.78	160.90	93.66%	-6.6%
	Capital expenditures ²	54.84	39.62	72.24%	-27.8%
	TOTAL	226.62	200.51	88.48%	-11.52%

Source: Accounts Department BoFED (IBEX data)

TABLE 5: HARARI REGIONAL STATE: VARIANCE IN THE COMPOSITION OF PRIMARY EXPENDITURE INCLUDING REGION SUBSIDIES - EFY 1999-2001 (2006/07--2008/09)⁴
(Percentage of originally budgeted expenditure for PI-2)

year	for PI-1 Total Primary expenditure deviation	Total Primary Expenditure variance	for PI-2 Total variance in excess of total deviation (Variance in Composition of Primary Expenditure)
1999	0.1%	41.9%	41.8%
2000	7.8%	41.9%	34.1%
2001	11.5%	27.2%	15.7%

Source: Own calculations from data provided by the Accounts Department of BOFED

² Excluding public debt payment

³ Excluding foreign project grants and loans

⁴ Refer to Annex 1 (Tables 1, 2 & 3) for the details to calculate the deviations between budgeted primary expenditures and actual primary expenditures (same for the variance).

The performance of the region in this regard has declined as compared with the EFY 1996, 1997 and 1998 which was below 5%.

Indicator	Score		Explanation
	2007	2010	
PI-1	A	B	Scoring Method M1
<i>(i) Difference between actual primary expenditure and originally-budgeted primary expenditure</i>	A	B	The expenditure in one of the last three years deviated from budgeted expenditures by more than 10%

2007 Regional PEFA Assessment

The 2010 performance compared to that of 2007 has shown a slight decline.

PI-2: Harari Regional State's expenditure out- turn

Budget credibility can also be evaluated with the extent to which entities receive the resources originally planned.

(ii) Degree to which the variation in the composition of primary expenditure has exceeded overall deviation in primary expenditure (as defined in PI-1) in the past three years

The deviation between budgeted amounts and actual out-turns by administrative budget head was 41.8%, 34.1% and 15.7% for the EFY 1999(2006/07), EFY 2000(2007/08) and EFY 2001(2008/09) respectively as indicated above. The variance was also high in EFY1995 (2002/03)-EFY 1997 (2004/05), 34.97%, 17.87% and 31.38%. The variance in expenditure composition showed no improvement (was also the same in EFY1995-EFY1997 (2002/2003-2004/2005). (Refer to Annex 1)

Indicator	Score		Explanation
	2007	2010	
PI-2	D	D	Scoring Method M1
<i>(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure</i>	D	D	The variance in expenditure composition exceeded overall deviation in primary expenditure by more than 10 percentage points in all of the three years

2007 Regional PEFA Assessment

For the period of EFY1999-EFY2001 (2006/07-2008/09) the variance in expenditure composition was no lower than during EFY1995-EFY1997 (2002/2003-2004/2005).

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

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are dependent upon that forecast. A comparison of budgeted and actual revenue provides an overall indication of the quality of revenue forecasting.

(i) Actual revenue collection compared with the original approved budget

As can be seen from Table 6 in EFY1999 -2001 (2006/07-2008/09) actual HPNRG revenues represented not less than 97% of budgeted revenue. The revenue budget execution has improved significantly during the EFY 1999 (2006/07) and 2000(2007/08). (Refer to Annex 2)⁵

TABLE 6: Aggregate Execution of Domestic Revenues At Harari Regional State EFY1999-EFY2001 (2006/07-2008/09)⁶

(Percentage implementation of originally budgeted revenues)

	EFY 1999 (2006/07)	EFY 2000 (2007/08)	EFY 2001 (2008/09)
ACTUAL CURRENT REVENUES	106.4%	103.10%	98.00%

Source: Own calculations from data provided by the Accounts Department of BoFED.

Indicator	Score		Explanation
	2007	2010	
PI-3	C	A	Scoring Method M1
<i>(i) Actual domestic revenue collection compared to original approved budget</i>			Actual domestic revenue collection was 98% of budgeted domestic revenue in one of the three years, but exceeded the budget estimates in the other years.

2007 Regional PEFA Assessment

The 2010 performance showed an improvement over 2007. The actual domestic revenue against the revenue estimates for the EFY 1996, 1997 and 1998 was 102%, 89% and 95% respectively.

PI-4 Stock and Monitoring of Payment Arrears

This indicator is concerned with measuring the extent to which there is a stock of arrears (expenditure obligations that have been incurred by government for which payment is overdue) and the extent to which the systemic problem is being brought under control and addressed. Expenditure payment arrears constituting a form of non-transparent financing has not been a problem at both the federal and regional levels because the PFM system does not allow them.

Salaries are paid on the fourth week of every month, invoices submitted by suppliers for goods and services are paid within a few days while utility bills are paid on time to avoid cut off of services by the respective utility companies.

⁵ The budget and actual revenue taken for this particular indicator is only the tax and non tax revenues of the region excluding subsidies from the Federal Government

⁶ Refer to Annex 2 (Table 4) for the details to calculate the aggregate execution of current revenues.

At the end of each financial year invoices could be received lately or have not yet been submitted even though the goods and services have been delivered. In such situations a “grace period” payment is allowed. A grace period means the 30 days commencing Hamle1 (Ethiopian calendar) during which invoices received for goods and services shall be paid from the previous fiscal year’s budget.⁷

As indicated in the trial balance of HPNRS at the end of EFY 2000 and 2001, grace period payables amounted to birr 2.96 million and birr 2.92 million respectively representing 1.97 and 1.79 percent of total expenditure. Apart from the grace period payables, the trial balances contain other types of account payables, as coded in the chart of accounts i.e., sundry creditors, pension contributions payable, salary payable and withholding tax payable. The IBEX system however does not permit the reporting of the age profile of these payables as it is compiled in BoFED (although the data is available at each bureau level). The lack of age profile therefore, limits the possibility of making inferences about the accumulation of arrears by comparing the stock of accounts payables at the end of a given month with that of the previous month.

Presently IBEX is operational at BoFED and the regional bureaus. This has enabled quicker and more accurate recording and reporting of accounts payables.

The dimensions to be assessed in this indicator are (i). Stock of expenditure payments arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent changes in the stock and (ii). Availability of data for monitoring the stock of expenditure payment arrears

(i). stock of expenditure payments arrears

As indicated in Table 7 below grace period expenditures for FY 2000 and 2001 were ETB 2.96 and 2.92 respectively.⁸This indicates that even if there were unpaid balances after Nehase 1 (August 7) they would be very insignificant. In addition the strong culture of paying bills on time (before they become overdue) does not allow the accumulation of arrears.

(ii). Availability of data for monitoring the stock of expenditure payment arrears

From the chart of accounts (CoA code 5001) and as defined above arrears are defined in terms of the grace period payables relating to payments due for goods and services received before the end of the fiscal year but not yet paid at the end of the grace period.

**Table 7: EFY 1999-2001 Grace Period Payables
(in million ETB)**

EFY	Grace Period Payables	Total Expand	Percentage share of Grace period payable
1999	-	149.8	-
2000	2.96	150.5	1.97
2001	2.92	163.3	1.79

Source: EFY 1999-2001 Consolidated Accounts of the Region

The accounting system does not permit the age profiling of accounts payable in the IBEX system .However, payables are paid on time due to the culture of compliance with regulations

⁷ The Federal Democratic Republic of Ethiopia, office of the House of Peoples Representative, Financial Administration Proclamation, No.57/1996.

⁸ Computed from the EFY 2000 and 2001 Trial Balances.

(wages will be paid on the fourth week of the month while utility bills will be paid on time due to threat of cut-off).

Indicator/ Dimension	Score		Explanation
	2007	2010	
PI – 4	NU	B+	Scoring Method M1
(i) Stock of expenditure payment arrears	NU	A	The stock of arrears is low, below 2% of total expenditure.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	NU	B	Data on grace period payables in relation to the payments due for procured goods and services is available, but the accounting system does not permit the recording of the age profile of other accounts payables. But the strong culture of compliance with financial regulations, as emphasized by the authorities, indicates that arrears on other payables would be minimal.

2007 PEFA Assessment

The indicator was not assessed on the ground that the PFM system in Ethiopia does not allow the emergence of expenditure arrears. However, the indicator should have been scored unless there was a problem of compiled data.

3.2. Comprehensiveness and transparency

This section deals with the comprehensiveness of the budget and fiscal risk oversight as well as public access to key fiscal information.

PI-5 Classification of the Budget

A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional and program.

The budget classification system of the Harari people National Regional state (HPNRS) is exactly the same as the Federal Government budget classification system as described in the Federal Budget Manual 2007, and the Federal Chart of Accounts Manual 2007.⁹

The chart of accounts provides codes for the functional and sub functional classification of expenditures and codes for public bodies. Functional classifications are the broad areas of expenditure. There are four functional classifications of expenditure: Administrative and General (100 series), Economic (200 series), social (300 series) and other (400 series).

The four functional classifications are further divided into sub-functional classifications of expenditure (e.g. code 210 represent the sub-function of Agriculture and Natural Resources under the Economic classification function , and 211 represents the Bureau of Agriculture and Rural Development, a public body). However, while the functional classification can in principle be broadly matched with the UN's Classification of Functions of Government (COFOG), of which there are 10, the sub-functional classification cannot be easily matched with the COGOG sub-functions.¹⁰

An economic classification, which shows the line item inputs of the budget (e.g. personnel services, goods and services etc) is shown under each public body.. The classification system also includes program and sub-program codes, which represent broad objectives of expenditure. In the Roads Authority, "own force projects" is an example of a program which is further divided into sub-programs and projects.¹¹

The dimension to be assessed in this indicator is: the classification system used for formulation execution and reporting of the regional government's budget.

The different budget classifications and their application are summarized in Table 8 below.

⁹ Ministry of Finance and Economic Development (MoFED) Federal Budget Manual, 2007, Federal Government of Ethiopia (FGE) Accounting system, Chart of Accounts, May 2007.

¹⁰ The COFOG functions and sub-functions are reproduced in the IMF's 2001 Government Finance Statistics manual (GFSM).

¹¹ Ibid.

Table 8: Budget Classification

Budget Classification	Formulation	Approval	Execution
Functional (/COFOG- bridgeable)	Yes	Yes	Yes
Sub – functional (/Not COFOG-bridgeable)	Yes	Yes	Yes
Administrative	Yes	Yes	Yes
Economic (GFSM)	Yes	Yes	Yes

Source: HPRS, budget manual

The budget classification system does not correspond exactly to the Classification of Functions of Government (COFOG) standards but broadly meets the standards for economic classification, as represented in the IMF's Government Finance Statistics Manual (GFSM).

Indicator	Score		Explanation
	2007	2010	
PI – 5	A	B	Scoring Method M1
(i) the classification system used for formulation, execution and reporting of the regional government's budget	A	B	The budget formulation and execution is based on an administrative and, under each administrative head, an economic classification basis, with administrative heads grouped under functional, sub-functional, programme and sub-programme codes (though programme budgeting is still being developed in Ethiopia). The functional codes can be bridged to match the 10 COFOG functional codes, but not at the sub-functional level. The score under the 2007 assessment should be B.

2007 PEFA Assessment

The indicator was scored A for all regions. As the budget classification system is still the same (does not fully correspond to CoFoG standards) the indicator was over scored.

PI-6 Comprehensiveness of Information Included in budget documentation

Annual budget documentation (the annual budget and supporting documents) as submitted to the legislature for scrutiny and approval should allow a complete picture of regional government fiscal forecast, budget proposals and out-turn of previous years. In addition to the detailed information on revenues and expenditures and in order to be considered complete the annual budget documentation should include information 1-9 in the box below.

No.	Item	Available	Source
1	Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	No	Overall situation like aggregate growth, inflation and exchange rate could have been relevant to provide an overall view of the economy but are not presented.
2	Fiscal deficit, defined according to GFS or other internationally recognized standard	No	In practice, there is no deficit as HPRS does not borrow and any savings accrued during the current year tends to be spent by the end of the year.
3	Deficit financing, describing anticipated composition	No	HPRG may accumulate/use retained earnings to finance surpluses/deficits, but this is not shown explicitly.
4	Debt stock, including details at least for the beginning of the current year	Not applicable	HPRG does not borrow.
5	Financial Assets, including details at least for the beginning of the current year in a timely manner.	No	Financial assets consist of cash on hand and in the bank. Though reported on in the trial balance sheets, they are not mentioned in the budget documentation.
6	Prior year's budget outturn, presented in the same format as the budget proposal	No	<i>It is only the draft budget law that is presented.</i>
7	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	No	"
8	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year	No	"
9	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No	The budget speech of the head of BoFED covers this but it is not part of the documentation.

The dimension to be assessed in this indicator is: (i). share of the above listed information most recently issued by the regional government.

The only documents submitted by BoFED to the Harari Regional Council is the draft budget proclamation. BoFED in its speech to the council reports on performance on expenditures and revenue of previous years and estimates of the current year and the priority areas of the draft budget allocation but this is not circulated to the members of the council.

The indicator is assessed in terms of the elements in the box above.

Indicator	Score		Explanation
	2007	2010	
PI – 6	A	D	Scoring Method M1
(i) share of the above listed information in the budget documentation most recently issued by the regional government	A	D	Recent budget documentation presented to the regional council does not fulfill any of the 8 applicable information bench marks. The 2007 score appears incorrect.

2007 PEFA Assessment

The indicator was scored A for all regions. It is hard to believe that there is deterioration in the content of the documents currently available. Information on out- turn on previous year, estimate on current year were not presented.

PI-7 Extent of Unreported Government Operations

Annual budget estimates, in year execution reports, year-end financial statements and other fiscal reports for the public should cover all budgetary and extra budgetary activities of regional government to allow a complete picture of regional government revenue, expenditures across all categories and financing. This will be the case if:

(i). Extra budgetary operations (regional government activities which are not included in the annual budget law, such as those funded through extra-budgetary funds) are insignificant or, if significant, are included in fiscal reports, and if (ii). Activities included in the budget but managed outside the government's budget management and accounting system (mainly donor funded projects) are insignificant or included in government fiscal reporting.

The dimensions to be assessed in this indicator are: (i) the level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports and (ii) income expenditure information on donor- funded projects which is included in fiscal reports.

(i) Level of extra – budgetary expenditure (other than donor funded projects) which is unreported i.e., not included in fiscal reports.

Extra budgetary operations (EBOs, excluding those of government owned commercial enterprises, which fall outside the scope of this indicator) include the food security and safety net programs, the road fund, the global fund for HIV, Malaria and Tuberculosis and “channel 2” programs (external funds channeled from sector ministries to sector bureaus)¹²

The safety net fund is administered by BofED, while the food security and roads fund are administered by the bureaus of Agriculture and Rural Development and the Office of Roads Authority (ROA) respectively.

The Global Fund was about USD 8 million and USD 95 million , (Annex4) in the year 2008 and 009 respectively. The HIV Secretariat at the Federal level coordinates the global fund allocated for HIVAIDS. The Global fund is an independent international financing institution, which was

¹² HPNS, BoFED

established in 2002 to strengthen the global response to fight AIDS, Tuberculosis and Malaria and to accelerate progress toward the achievement by 2015 of the health related Millennium Development Goals (MDGS). The Global Fund raises and disburses resources on a large scale to countries in need of funding to fight the three diseases and to strengthen health systems.¹³ However, the operations of the Global Fund are not reported on either at federal government level (to MOFED) or at regional government level (to BOFEDs). Given the magnitude of its funding, the operations represent significant unreported extra-budgetary operations.

The Ethiopian Road Fund was established on March 6, 1997 by proclamation no. 66/1997 as a permanent financial resource for road maintenance activities and road safety measures. Through proclamation no. 471/2005 (Art. 33 no. 7) of November 2005 that made amendments to the designations of federal executive organs and their heads, the Road Fund came under the Ministry of Works and Urban Development.

The sources of the fund (according to the proclamation) are budget allocated by the Government, Road maintenance fuel levy, Annual vehicle license renewal fee based on axle road, overloading fine and any other road tariff levied as may be necessary.¹⁴ This fund is one of the extra budgetary funds at Federal level. The annual total expenditure at national level in the year 2000 EFY (2007/08) and 2001 EFY (2008/09) was about ETB 1.1 billion respectively.

The amount of Road Fund transferred to the HPNR state is shown in Table 9 below.

Table 9: Amount of Road Fund Transfer to the HPRS (in million ETB)

EFY	Amount of transfer
1999	4.7
2000	2.8
2001	1.3

Source: Office of the Road Fund Administration

The water Authority is the only public enterprise in the region.

(ii) Income /expenditure information on donor funded projects which is included in Fiscal reports.

Information on income/expenditure on donor-funded projects which are off-budget but which are reported to BoFED is shown in Table 10 below.

¹³ Global fund, Annual Report, 2010 March, 1997

¹⁴ HOPR, Proclamation No. 66/1997 and No. 471/2005 November 2005

**Table 10: Off-budget Expenditures Reported to BoFED
(Million ETB)**

	Project/Program	Total Expenditures		
		1999	2000	2001
1	Productive Safety net	0.75	2.71	4.17
2	Other food security	4.77	4.78	4.87
3	RWASH	-	-	2.47
4	PSCAP	3.02	3.45	3.82
5	PBS	0.24	0.26	0.29
6	UN EXCOM	-	9.24	9.73
	Total	8.78	20.44	25.35

Source: HPNS, BoFED

Indicator/Dimension	Score		Explanation
	2007	2010	
PI – 7	NS	D+	Scoring Method M1
(i) level of extra-budgetary expenditure other than donor funded projects	C	D	The level of unreported extra – budgetary expenditure other than donor funded projects is insignificant, apart from the operations of the Global Fund, which are not reported on at either federal or regional government level, even though the magnitudes involved are very large and the loan-funded housing development project, which is large relative to the approved budget, and for which reports appear not be prepared (see PI-17).
(ii) income/ tax expenditure information on donor funded projects which is included in fiscal year	C	A	Complete income expenditure information for 90% value of donor funded projects is included in fiscal reports. The C rating in the 2007 assessment is un-substantiated; the text indicates that there was insufficient evidence to score. Nevertheless, the expanded use of the Channel One funding modality in recent years indicates that the score might have been lower in 2007.

Source: HNRG, BoFED

Loan and assistances which had been notified by MoFED and reported by BoFED for actual expenditures is shown in Table 11 below

Table 11: Subsidy Budgets of Loan and Assistance and Actual Expenditures**In Million ETB**

EFY	Budgeted Subsidy			Expenditure Reported in the Annual Financial Report		
	Loan	Asst.	Total	Loan	Asst.	Total
1999	1.6	1.8	3.4	2.45	0.04	2.49
2000	4.3	5.4	9.7	0.8	-	0.80
2001	4.1	2.1	6.2	0.98	1.42	2.40

Source:HNRG, BoFED

2007 PEFA Assessment

The overall score for the assessed regions was B except Harari whose score was C. However, the assessment report also mentions that there was not sufficient evidence to score, and the different extra-budgetary operations are not referred to. So it is not possible to make a valid comparison between the 2010 and 2007 scores.

PI – 8 Transparency of Inter – Governmental Fiscal Relations

This indicator assesses the transparency of inter – governmental fiscal relations against the following dimensions:

- (i) *Transparency and objectivity in the horizontal allocation of fiscal transfers among SN governments*
- (ii) Timeliness of reliable information to SN governments on their allocation and
- (iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral allocations

- (i) *Transparency and objectivity in the horizontal allocation of fiscal transfer to kebele Administrations.*

In the Harari region there are 9 kebele administrations 6 of them in the city while the remaining 3 are in the suburbs. There is no defined fiscal transfer formula to these kebele administration offices. They are required to submit their annual budget requests to BoFED just like the sector bureaus and other offices in the region and essentially represent de-concentrated offices of the regional government. The dimension, and the indicator as a whole, is therefore not applicable.

2007 PEFA Assessment

The indicator was scored, though it was not applicable, for the same reasons as mentioned above.

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

Fiscal risks can be created by SN governments, autonomous government agencies (AGA) and public enterprises (PE) taking the form of debt service defaulting, operational losses expenditure payment arrears etc, and unfunded pension obligations.

This indicator assesses the (i) extent to which the regional government monitors the fiscal risks that could arise from (AGAs) and public enterprises (PES) and (ii) sub-national governments

(i) Extent of regional government monitoring of Autonomous government agencies and public enterprises.

The Harari Regional Government has only one enterprise: the Water Construction Enterprise. The enterprise generates its own revenue, can borrow from banks and does not get any government subsidy except the equity capital which the region has provided when it was formed. Its obligation is to pay profit taxes. The enterprise is accountable to a governing board whose members are senior government officials. The board approves annual work plans, evaluates quarterly and annual performance reports and the audited financial reports. The enterprise submits reports to BoFED

(ii) Extent of monitoring of kebele administration fiscal position.

This dimension is not applicable, for the same reasons listed under PI-8.

Indicator/Dimension	Score		Explanation
	2007	2010	
PI – 9	N/A	A	Scoring Method M1
(i) Extent of regional government monitoring of AGA's and PES	NU	A	There is only one enterprise which does not receive subsidy and operates on its own budget. It is therefore, financially independent. However, it sends reports to BoFED which facilitates keeping track of its fiscal position.
(ii) Extent of regional government monitoring of kebele administrations fiscal position	N/A	NA	This dimension is not applicable for the same reasons indicated under PI-8.

2007 PEFA Assessment

The indicator was not scored for dimension (i) for un-stated reasons, and was also not scored for dimension (ii) on the grounds that contingent and quasi – fiscal liabilities have not been an issue at SN level. The indicator could have been scored for dimension (i), however, and was not applicable in the case of dimension (ii).

PI-10 Public Access to Key Fiscal Information

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

i) Number of the elements regarding public access to information, mentioned above, that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements within the information parameter).

The elements of information to which public access is essential and the availability and the means through which these information could be available is presented in the box below. The dimension in the standard assesses the number of the listed elements of information that the public can access.

Elements of Information for Public Access

Elements of information for public access	Availability and means
Annual budget documentation when submitted to legislature	<i>Not met.</i> It is only the draft budget law that is presented to the Regional Council. The Budget Speech is publicized on radio and TV, but details on the proposed budget are not provided. Interested members of the public are allowed to watch the debate on the draft budget.
In-year budget execution reports within one month of their completion.	<i>Not met.</i> BOFED prepares quarterly budget execution reports, both at regional bureau and kebele administration level, but does not publish them
Year-end financial statements within 6 months of completed audit.	<i>Not met.</i> Audited year-end financial statements are not published, either by BOFED or by ORAG.
Availability of external audit reports to the public.	<i>Not met.</i> The reports will be available at ORAG's library for reference, but those who could be interested are not aware of this. ¹⁵
Contract awards with value above US\$ 100,000 approx. are published at least quarterly.	<i>Not met.</i> Tenders are published but contract awards are not published.
Availability to public of information on resources for primary service units.	<i>Met.</i> Under another FTAP project under PBS, information on service delivery is beginning to be provided through the posting of information on service delivery at primary schools, health care units and agricultural extension centers. The project is being rolled out to all woredas and the community. ¹⁶

Indicator	Score		Explanation
	2007	2010	
PI – 10	C	C	Scoring Method M1
(i) List of elements of information accessible to the public	C	C	The government makes available to the public one of the 6 listed types of information.

¹⁵ HPNG Office of the Regional Auditor General, ORAG

¹⁶ MoFED, Financial Transparency and Accountability Perception of Lay persons Public Budget and Expenditure Templates, May 2008.

2007 PEFA Assessment

The indicator is scored the same, C in both the assessment periods especially as a result of information on primary schools and health clinics. However, the FTAP project had not started in 2007, so the score in 2007 should probably be D, not C, indicating some progress since then

3.3. Policy-based based budgeting

The indicators in this group assess to what extent the regional budget is prepared with due regard to government policy.

PI – 11 Orderliness and Participation in the annual budget process

Effective participation in the budget formulation process by all concerned bodies including the political leadership impacts the extent to which the budget will reflect macro –economic, fiscal and sector policies. Full participation requires an integrated top – down and bottom – up budgeting process, involving all parties in a timely manner.

The dimensions to be assessed in this indicator are (i) Existence of and adherence to a fixed budget calendar (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent) and (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)

i) Existence of and adherence to a fixed budget calendar.

The Harari People Regional State follows a similar financial calendar directive to that of the Federal Government's Financial Calendar Directive of December 2003. According to the region's Financial Calendar Directive of September 2006, the budget call to the regional bureaus and the kebele administrations is sent on February 8 of each fiscal year. The calendar allows six weeks for the submission of budget proposals. The regional council according to the calendar has 4 weeks to review and approve the budget i.e. June 8 to July 7. According to staffs at BoFED sector bureaus and kebele administrations submit their budget proposals by and large on time. Following review of these by BOFED, requests for detailed expenditure estimates are sent to bureaus (in mid-May) which then have 3 weeks to complete.¹⁷

ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).

A budget circular with a detailed guidance on priority sectors/programs and on specifics that sector bureaus offices and kebele administrations need to follow while preparing the recurrent and capital budget is issued. No ceilings are attached for each public body at this stage, partly because the amount of the federal government budget subsidy is not known with certainty. Using the formats provided in the guidelines, budget institutions provide estimates of next year's expenditures on the basis of the existing situation and provide estimates of new spending proposals based on government's priorities. Following review by BOFED, bureaus and kebele administrations are provided with a spending ceiling and are requested to provide detailed estimates to fit within this ceiling.

¹⁷ HPRA, BoFED Staff

iii) Timely budget approval by the legislature

During the assessment period the regional council was unable to approve the budget before the start of the fiscal year i.e. July 8. The reason is that the federal and regional government fiscal calendars are the same and that Federal government final notification of the budget subsidies to regional governments may not be made until the end of the fiscal year, so time is needed to finalize the budget estimates after the end of the fiscal year.

Ethiopian Fiscal Year	Date Approved
1999	August 2006 (Date not specified)
2000	August 23, 2007
2001	August 6, 2008

Indicator/ Dimension	Score		Explanation
	2007	2010	
PI – 11	A	B+	Scoring Method M2
(i) Existence of and adherence to a fixed budget calendar	A	A	A clear annual budget calendar exists, is generally adhered to and allows sector bureaus/offices and kebele administrations at least six weeks from receipt of the budget call to complete their budget proposal.
(ii) Guidance on the preparation of budget submission	A	A	A comprehensive and clear budget circular is issued to sector bureaus and kebele administrations. The circular does not provide ceilings but provides guidance on preparing the recurrent and capital budgets, including for new spending in priority areas. Following review by BOFED, ceilings are set for the finalization of the detailed estimates.
(iii) Timely budget approval by the legislature	A	C	The legislature has in three of the last three years approved the budget within two months of the start of the fiscal year.

2007 PEFA Assessment

All the three dimensions were scored A, but the rating for dimension (iii) seems too high.

EMCP Impact Assessment

- Budget manual and training modules received.
- New chart of accounts in use since EFY 1996, but problems due to its complexity and in sufficient training.
- Only 30 percent of bureaus are using IBEX, due to lack of/malfunctioning computers and insufficient training, but benefits of IBEX are appreciated.
- Recurrent and capital budgets prepared together.
- Cost centre concept is well understood and is used in the budget preparation process.
- Budget calendar is strictly followed.
- Overall understanding of budget reform is very good.

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

Expenditure policy decisions have multi-year implications and must be aligned with the availability of resources in the medium term.

The dimensions to be assessed in this indicator are (i) preparation of multi-year fiscal forecasts and functional allocations (ii) scope and frequency of debt sustainability analysis (iii) existence of sector strategies with multi-year costing of recurrent and investment expenditure (iv) Linkages between investment budgets and forward expenditure estimates.

i) Preparation of multi-year fiscal forecast and functional allocation

According to the financial calendar of the region, the time frame for the preparation of a Macro Economic and Financial Framework and Public Investment Program is indicated. The process of preparation of a public investment program is also indicated in the Financial Administration Regulation no. 3/1993 (E.C).¹⁸ Despite this a multi-year fiscal forecast that can serve as a framework for the annual budget preparation is not yet prepared.

ii) Scope and frequency of debt sustainability analysis

This dimension is not applicable as the region does not borrow and has no debt obligation.

iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

At the federal level there are sector development strategies/programs for the major sectors. These sector programs include: Education Sector Development Program, Road Sector Development Program, Health Sector Development Program and Water Sector Development Program. These sector programs prepared at the federal level are being adapted by each sector bureau. Apart from the sector programs strategic plans are prepared by each bureau. The sector strategies are costed, the capital and recurrent cost components are clearly indicated for each fiscal year. A review of the Education and Health Sector Development Programs of the Education and Health bureaus indicated that the costs are by far higher than the budget for each respective fiscal years, in addition the costs are not based on a multi-year fiscal forecast.

iv) Linkages between investment budgets and forward expenditure estimate.

New investments/capital projects are selected based on the respective sector development objectives, strategies and physical targets. However, the link between investment budgets and their recurrent cost implications is weak. This is evidenced by the fact that most investments after completion lack the required recurrent budget (hospitals, clinics, schools)

¹⁸ HPNRS, Financial Administration Regulation no.3/1993 (E.C)

Indicator/ Dimension	Score		Explanation
	2007	2010	
PI – 12	D+	D+	Scoring Method M2
(i) multi-year fiscal forecasts and functional allocations	C	D	Unlike the federal government, there is no Macro-economic and fiscal forecast (MEFF) on a rolling basis
(ii) scope and frequency of debt sustainability analysis	N/A	D	HRPG has borrowed once, in relation to its financing of a housing development project (see PI-17). There is no evidence of a debt sustainability analysis being carried out prior to the incurrence of the loan.
(iii) existence of costed sector strategies	D	C	The education and health sector development plans are fully costed. However, the forecasts are inconsistent with aggregate annual budgets. In F.Y 2001 the education and health sectors total spending comprised 40% of aggregate expenditure. ¹⁹
(iv) linkages between investment budgets and forward expenditure estimates	C	C	The majority of important investments (education and health) are selected on the basis of sector strategies but their recurrent cost estimates in the sector strategies are by far higher than the annual recurrent budget.

2007 PEFA Assessment

Even though the overall score indicates no change, improvement is noted under dimension (iii). The score for dimension (i) seems too high as a medium term framework was not in place. Changing the score to D still results in an overall D+.

3.4. Predictability and control in budget executions

Under this section 9 indicators are assessed that mainly deals with implementation of the budget in an orderly predictable manner and arrangements for the exercise of control and stewardship in the use of public funds.

PI- 13 Transparency of Taxpayer Obligations and Liabilities

Effective assessment of tax obligations and liabilities is subject to the overall control environment that exists in the tax administration system. It also depends on the direct involvement and cooperation of the tax payers.

This indicator assesses the transparency of the tax administration by reviewing the following dimensions:

- (i) Clarity and comprehensiveness of tax liabilities
- (ii) Tax payer access to information on tax liabilities and administrative procedures and

¹⁹ Own Computation from the EFY 2001 Regional Account.

(iii) Existence and functioning of a tax appeals mechanism.

i) Clarity and comprehensiveness of tax liabilities

The regional government has its own tax proclamations which are based on the federal tax proclamations and regulations. The tax systems are harmonized. The legislations and procedures for all major taxes are comprehensive and clear with limited discretionary powers given to the head of BoFED.

Accordingly, the Head of BOFED may waive tax liabilities up to EB 10,000 at his discretion in cases of grave unavoidable hardship. Approval of the Council of the Regional State is required, for amounts higher than EB 10,000. Discretionary power is also provided to the Head of BoFED in the case of turnover taxes²⁰

Presumptive taxation (less than EB 100,000 turnover a year) by its nature provides discretionary power because in the absence of books of account, the Revenue Authority has to make an estimate of the turnover/income to levy the tax.

ii) Tax payers access to information on tax liabilities and administrative procedures.

The Revenue Authority issues brochures and pamphlets on the major taxes. There is also a radio program, 3 days a week, where tax payers education are transmitted. An information desk within the Authority provides all the necessary information on tax procedures for those who come to the Authority. There is a consultative meeting with all stake holders every three months which has started lately.²¹ However, through a discussion with members of the Regional chamber of Commerce the team learnt that more has to be done on awareness creation.

iii) Existence and functioning of a tax appeals mechanism

Appeal Procedures including the different bodies who review appeals, and their duties and responsibilities are clearly provided for in the Income Tax Proclamation No. 41/1996. Tax appeal process passes through three phases:

Review Committee: Members of the Review Committee (RC) –accountable to the Revenue Authority- -are appointed by the head of BOFED upon the recommendations of the Revenue Authority. The RC examines tax payer queries over their tax assessments and, where appropriate, recommends waivers of assessed tax liabilities and associated penalties and interest charges.

Tax Appeals Commission: This is established at regional level and is independent of the Government. Members are selected from other bureaus (Trade and Industry, Capacity Building), tax payers themselves, and the Chamber of Commerce. It meets weekly (members are paid per Diems). Submission of an appeal requires: (i) lodging within 30 days of receipt of the tax assessment notice or the date of the decision of the RC concerning the tax assessment; and (ii) deposit of 50 percent of the disputed amount with the Revenue Authority. The Commission has the authority to confirm, reduce or annul the tax assessment. The chair of the Commission is required to prepare an annual report.

²⁰ HPNG, Regional Council Income Tax proclamation No. 41/1996

²¹ HPNG, Head Revenue Authority

Court of Appeal: A taxpayer dissatisfied with the decision of the Tax Appeals Commission may appeal to a court of appeal within 30 days of the decision on the grounds that the decision is erroneous in terms of the law. If dissatisfied with the decision of the court of appeal, the taxpayer may appeal to a higher court of appeal. The tax payer must first pay the full assessed tax liability.

Indicator/Dimension	Score		Explanation
	2007	2010	
PI-13	B	B+	Scoring Method M2
(i) Clarity and Comprehensiveness of tax liabilities	A	A	Legislation and procedures for the main taxes are comprehensive and clear with fairly limited discretionary powers
(ii) Tax Payers access to information on tax liabilities and administrative procedures	C	B	The Revenue Authority has prepared brochures, uses the FM Radio to educate tax payers. There is also an information desk. According to the Chamber of Commerce, more work is required on awareness creation.
(iii) Existence and function of a tax appeals mechanism	B	B	A tax appeals system is set up and is functional with members from outside the Government including a member from the Harari Chamber of Commerce. However, issues relating to access, efficiency, fairness or effective follow-up on its decisions need to be addressed.

2007 PEFA Assessment

The overall score is about the same except the fact that an improvement is recorded with respect to tax payers' access to information.

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

Effectiveness in tax assessment is ascertained by an interaction between registration of liable tax payers and correct assessment of tax liability for those tax payers. This indicator assesses the effectiveness of measures for tax payer registration and tax assessment through the following dimensions:

- (i) Controls in the tax payer registration system
- (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations and
- (iii) planning and monitoring of tax audit and fraud investigation programs.

i) Control in the tax payers registration system.

According to the Income Tax Proclamation No.41/1996 of the region, a person with a tax obligation is required to obtain a Tax Identification Number (TIN). It is also states that a person obtaining a license to carry out a business is required to supply the TIN to the licensing Authority.

All public bodies and institutions issuing a business or occupational license are required not to issue or renew such licenses unless the tax payer supplies the TIN. The Head of the Revenue Authority has confirmed to the team that the TIN is being supported by biometrics finger prints. The machine has been provided by the Federal Government. Training has also been given to staff of the Authority.

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

The regions Income Tax proclamation No. 41/1996 sets out penalties for:

- (i) Late filling or non-filing
- (ii) Under statement of tax and
- (iii) Late payment

Penalty for Late Filing or Non-Filing:

A tax payer who fails to file a timely tax declaration is liable for a penalty equal to:

- (a) 1,000 Birr for the first thirty (30) days (or part thereof) if the declaration remains unfiled;
- (b) 2,000 Birr for the next thirty (30) days (or part thereof) if the declaration remains unfiled;
- (c) 1,500 Birr for each thirty (30) days (or part thereof) thereafter that the declaration remains un-filled.

Penalty for Understatement of Tax:

- 1) If the amount of tax shown on a declaration understates the amount of tax required to be shown, the taxpayer is liable for a penalty in the amount of 10% (ten percent) of the understatement or 50% if the understatement is considered substantial in accordance with Sub-Article (2) of this Article.
- 2) The understatement is considered substantial if it exceeds the smaller of the following two amounts:
 - (a) Twenty-five percent (25%) of the tax required to be shown on the return; or
 - (b) 20,000 Birr.
- 3) The penalty shall continue to apply until, the Appeal Commission or a Court, as the case may be, shall have rendered its final decision.

Penalty for Late Payment:

A taxpayer who fails to pay tax liability on the due date is subject to:

- (a) A penalty of 5% of the amount of unpaid tax on the first day after the due date has passed: and
- (b) An additional 2% of the amount of the tax that remains unpaid on the first day of each month thereafter.

The penalties are high enough to have significant impact on offenders. However, information on the consistency of administration is lacking.

iii) Planning and Monitoring of Tax Audit and Fraud investigation program

There are three categories of tax payers classified by the volume of their annual sales turnover. Category A covers those with annual turnover of Birr 500,000 and above. Category B covers those with annual turnover of above Birr 100,000 but less than Birr 500,000. Category C tax payers are those with annual turnover of less than Birr 100,000. Category C tax payers are not obliged to maintain books of accounts. There are about 5,000 tax payers (traders): 183 (3.7%) in category A, 500 (10.0%) in category B and 4,317 (86.3%) in category C. According to the head of the RA, they have tax audit plans based on possible risk posed by category A tax payers.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-14	C	B	Scoring Method M2
(i) Controls in the tax payer registration System	C	B	Tax payers are required to have a TIN. They are registered in a data base system. Issuance and renewal of business license requires TIN. There is therefore linkage (not direct) with the Trade and Industry Bureau.
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration.	B	B	High penalties for non-compliance are set in the Income tax proclamation. No information is available to assess its effective administration.
(iii) Planning and Monitoring of tax audit programs	D	C	There are few category A tax payers for whom risk based audit according to plan is undertaken. There is a capacity constraint.

2007 PEFA, Assessment

There is an improvement in performance with respect to TIN as more tax payers are registered and also with regard to planned risk-based audits.

PI-15 Effectiveness in Collection of tax payments

This indicator assesses the effectiveness in the collection of assessed taxes using the following dimensions:

- (i) Collection ratio for tax arrears
- (ii) Effectiveness of transfer of tax collections to the Treasury
- (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

i) Collection ratio for tax arrears

This dimension requires the availability of data on tax assessment, collection and arrears. However, these disaggregated data are not available except collection. The planned budget revenue does not differentiate the amount of the arrears from the current liabilities. Therefore it is not possible to score the dimension.

ii) Effectiveness of transfer of tax collections to the Treasury

Taxes are collected in the form of cash and certified check. Those who do not pay in cash to the Authority deposit their tax liabilities at BoFED's Bank Account at the Commercial Bank of Ethiopia (CBE). Because of the small size of the region, tax payments made directly to the BoFED's account and those paid directly to the Authority, are transferred to the central Treasury Account within days.²²

iii) Frequency of complete accounts reconciliations between tax assessments collections, arrears records and receipts by the Treasury.

As pointed out above there are no data on tax arrears. The only reconciliation made by BoFED is between its records compiled from reports sent by the Authority and the bank statement received from the Commercial Bank which only shows collection.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-15	C+	D+	Scoring Method M1
(i) Collection ratio for tax arrears	B	N/S	No disaggregated data is available on assessment and arrears
(ii) Effectiveness of transfer of tax collections to the Treasury	A	B	Revenue Collections are transferred to the treasury at least weekly
(iii) Frequency of Complete accounts reconciliations between tax assessments, collections, arrears records, and receipts by the Treasury	C	D	The reconciliation is only with bank statements and collection by the Authority. There is incomplete accounts reconciliation between assessment, collection, arrears and transfers.

2007 PEFA Assessment

Presently dimension (i) collection ratio for tax arrears has not been scored (N/s) due to lack of data where as in the 2007 assessment it has been scored B, which appears to be wrong. The information has to be verified, but it is likely that the 2007 score is wrong. The A rating for dimension (ii) also appears incorrect. Regarding dimension (iii), the statement in the 2007 report, "Annual Comprehensive reconciliation of tax assignments, collections, arrears and transfers to Treasury takes place often with in the first quarter after end of the financial year" appears to be wrong.

PI-16 Availability of funds for expenditure²³

Effective execution of the budget in accordance with work plans requires that spending public bodies receive reliable information on the availability of funds within which they can commit expenditure.

²² HPNG, Head of Revenue Authority

²³ Data and information for PI-16 were provided by BoFED

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

Annual cash flow forecast are prepared and issued by BI. In addition quarterly cash flow requirements are issued by BI to BoFED and updated quarterly. Based on the cash flow forecast monthly spending ceilings for each BI are established and issued to Commercial Bank of Ethiopia (CBE), so that the BI can withdraw to the extent of the limit.

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

Bureaus are able to commit expenditure within the year based on the approved budget. Consistency with the monthly cash spending limits has not been an issue as these were derived from the cash-flow forecasts of BI.

(iii) Frequency and transparency of adjustments to budgetary allocations at a level higher than MDO administrations

The budget law, the financial administration law and the financial regulations provide authority to the regional council and BoFED to make in year budget adjustments. The frequencies of such adjustments are not logged in the IBEX system. However, the amount of in -year adjustments is significant in all the three years of assessment.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-16	A	C+	Scoring Method M1
(i) Extent to which cash flows are forecast and monitored.	A	B	Cash-flow forecast is prepared on a quarterly basis. Performance has not deteriorated from the 2007 PEFA. It seemed that dimension (i) of this indicator should had been scored B not A.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	A	MDAs' are able to plan and commit expenditures for at least six month in advance in accordance with the budgeted appropriations.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	A	C	Significant in-year adjustments to budget allocations take place frequently in a year and are done in a transparent way.

2007 PEFA Assessment

The A ratings for dimensions (i) and (iii) appear incorrect and there has been no performance deterioration.

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 major elements of fiscal management as poor management of debt and guarantees can create high debt service costs and significant fiscal risks.

i) Quality of the registration and presentation of reports providing data on indebtedness

The government of Harari has taken a loan from CBE by issuing bonds. The purpose of the loan is for a housing development project. According to proclamation no 64/1999 the regional state has approved a three year loan agreement (from EFY 1999 to 2001) for a total sum of ETB 326 million. This amount is twice as much as the annual approved budget of the EFY 2001. To minimize the outstanding loan balance, BoFED is disbursing cash requirements from its treasury account, and reimbursing itself at the end of the year by taking a loan from CBE against the bond. The loan repayment is made when the houses are transferred to individuals. The loan and associated repayments are not included in the budget proclamations (as mentioned under PI-7). . Although the loan and loan repayment details are recorded and reconciliation is straightforward, reports for management appear not be produced.

ii) Degree of consolidation of the government's cash balance

Since March 2008, BoFED has introduced a Zero Balance cash management system. According to this system, BI will have a quasi overdraft account, which will be setoff at the end of each day against the treasury account. Unlike other regions the revenue authority of Harari deposits all collection directly to the accounts of the treasury. Zero balance system is implemented in all BI except at the level of Kebeles. Collections made by Kebeles are deposited at RA, and RA transfers a week later to the CTA. The practices helped to consolidate the government cash. Donor project bank accounts and extra-budgetary funds are, however, outside the zero balance system.

iii) Systems for contracting loans and granting guarantees

Loans were approved by the council and executed by BoFED²⁴. Bonds are issued for the loan. The only loan so far the regional government borrowed is from CBE for the housing project. There is no evidence that the loan decision is in line with fiscal targets and overall ceilings.

EMCP Impact Assessment Study: With regard to HPRG, the study notes the benefits associated with the zero balance system in terms of elimination of idle cash balances, less paperwork and the shorter payments process in terms of time (also a benefit of IBEX, which has been rolled out to regional bureaus). The study notes, however: (i) lack of cooperation from commercial banks in providing timely bank advice statements; and (ii) sector bureaus do not send monthly cash utilization forms to BOFED on time.

²⁴ Proclamation No 64/1999

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-17	N/A	C+	Scoring Method M2
(i) Quality of debt data recording and reporting	N/A	C	The loan (the only borrowing by HPRG) for the housing project is recorded at BoFED and the Housing Development Agency. Loan-related details are recorded, but reports for management appear not to be prepared.
(ii) Extent of consolidation of the government's cash balances	NU	B	Most of the government cash balances are consolidated on a weekly basis. Donor funds in bank accounts are not consolidated
(iii) Systems for contracting loans and issuance of guarantees..	N/A	C	The housing development loan was approved by the regional council. Fiscal targets and overall ceilings were not taken into account at the time of decision.

2007 PEFA Assessment

There were no loans/loan guarantees outstanding at the time of the 2007 assessment, so dimensions (i) and (iii) were not applicable at that time. Dimension (ii) was not scored, as it was deemed (incorrectly) to be not applicable at sub-national government level.

PI-18 Payroll control

Payroll expenditure makes up a high proportion of the overall recurrent expenditure of the regional governments. Effective control of the payroll is therefore an important indicator of sound financial management. One of the reform measures of treasury includes the decentralization of payroll where the finance service of each public body is responsible for the preparation, approval and implementation of the public bodies' payroll.¹

Payroll is prepared using Excel Spreadsheet and payments are effected through banks at the level of Bureaus.

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

Personnel data are maintained by the administration department and payroll is prepared by the finance department. All changes and additions to personnel data are transferred to the finance department for updating payroll record.

Attendance is managed by the administration department, which submits attendance reports to the finance department on a monthly basis.²⁵

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

Though the integration is not online, updates are made on a monthly basis. Software is used for payroll data processing. Letters on personnel payment changes are forwarded on the same day the letter is released. Monthly attendance sheets are issued to the finance department based on the monthly schedule, 10 days from the date of salary payment.

²⁵ Based on discussion made with BoE, BoH and BoFED.

(iii) Internal control over changes to personnel records and payroll data

The system deployed (Excel payroll sheet) doesn't have an audit trail for changes in the payroll record. Personnel pay data are maintained by the administration department and are not accessible to others. Finance department is working with its own copies of personnel pay data and the audit trail in terms of physical documentation is intact.

(iv) Existence of payroll audits to check for oversight errors and/ or ghost workers

Payroll audits are undertaken by the internal audit department and ORAG, though not as a routine exercise as payroll is not one of the risk areas. The EFY 2001 ORAG's report of the region identified 17 findings of non compliance but none of these were with respect to payroll.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-18	A	B+	Scoring Method M1
(i) Degree of integration and reconciliation between personnel records and payroll data	A	B	Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month
(ii) Timeliness of changes to personnel records and the payroll	A	A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments.
(iii) Internal controls of changes to personnel records and the payroll.	A	B	Authority to change records and payroll is restricted, but the audit trail is only partial. Changes made to the payroll record were evidenced by documents.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	A	B	Payroll audit is conducted by internal auditors on a quarterly basis ²⁶ ORAG also conduct payroll audits.

2007 PEFA Assessment

There is no deterioration of performance from that of 2007 PEFA, which appears over-scored; for example, there was no linked database between the personnel records and the payroll database.

PI-19 Procurement

This indicator focuses on the quality and transparency of the government regulatory framework in terms of establishing the use of open and fair competition as the preferred procurement method and defines the alternatives to open competition that may be appropriate when justified in specific situations.

²⁶²⁶ BoE internal audit

The *Procurement and Property Administration Process* is the responsible unit within BoFED in charge of procurement activities in the Harari regional state. This unit is not directly involved in procurement activities. It provides training, technical support, development of procurement manuals and conducting follow-up and evaluation on procurement activities. Annual procurement plans are collected from BIs. A new procurement proclamation was enacted in EFY 1999 (August 2007). According to this proclamation, a new directive was also issued. Since then some of the directive has been amended in order to make certain procurement procedures more efficient.²⁷

(i) Evidence of open competition being used for the adjudication of contracts with a value in excess of the monetary threshold nationally established for small acquisitions (percentage of the number of contracts awarded with a value above the threshold)

No compiled data were available as to the type of procurement method used, and the volume of the procurement per each type of procurement in value and quantity. Based on the discussion with *Procurement and Property Administration Process (PPAP) unit*, most of the procurement is conducted based on Proforma Invoice (Request for quotation). As the value of the procurement is relatively small at the regional level, the types of procurement selected mainly fall in this category..

(ii) Degree of justification for the use of less competitive methods for procurement

Six other procurement methods are identified in the proclamation other than open tender²⁸. These are the methods of restricted tender, the two stage tendering, request for proposal, the single sourcing, preset pricing and the request for quotation. The conditions for the use of other methods other than open tenders are clearly specified in the proclamation. The single sourcing is a method where no competition is made among bidders. Generally, procuring entities are adhering to the procurement guidelines.

(iii) Existence and functioning of a procurement complaints mechanism

There is a functioning complaints procedure. The procedure is indicated in the procurement proclamation. PPAP had provided training to the business community on public procurement including the complaint procedures.²⁹ According to the proclamation, complaints should be presented to the head of the budgetary institutes, and if a bidder is not satisfied with the decision of the head of procuring entity, then he/she may apply to PPAP. No incidence of complaint was reported during the assessment period.

²⁷ Procurement proclamation no. 69/1999; Directive no 27/2000

²⁸ Proclamation No. 69/1999,

²⁹ PPAP, Harari Chamber of Commerce

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-19	C+	C	Scoring Method M2
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold);	A	D	There is no compiled report on procurement activities
(ii) Extent of justification for use of less competitive procurement methods.	A	C	Other less competitive methods used are some cases justified in accordance with the regulatory requirements. However in its EFY 2001 audit report ORAG has reported purchases by 14 public bodies that did not comply with the procurement directive
(iii) Existence and operation of a procurement complaints mechanism	D	B	A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative, though only recently (2009/10).

EMCP Impact Assessment Study

The HRG has promulgated its procurement laws and accordingly BoFED has issued and distributed directives, guidelines, procurement procedure manuals and training modules to sector bureaus. The revised proclamation no 69/1999 has been implemented since EFY 1999. In addition, directive no 27/2000 has also been operational. Clarity and confidence in conducting procurement activities setting the legal ground for performing duties are the improvements brought by the procurement reform.

2007 PEFA Assessment

The scoring in 2007 PEFA seemed over scored for dimensions (i) and (ii). In terms of dimension (iii), there has been improvement since 2008 in the activities of PPAP in terms of awareness creation and training for the business community on the procurement process.

PI-20 Internal controls for non-salary expenditure

Internal control systems include all the policies and procedures that ensure the orderly, effective and efficient conduct of operation including adherence to internal and government policies, rules and regulations, the safeguarding of assets, the prevention and detection of error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and managements information and fairly disclosing data in a timely report.

i) Effectiveness of expenditure commitment controls

Expenditure commitments cannot be entered without requesting in writing the head of a public body or persons authorized by him. The availability of sufficient budget has to be ensured before a contract or other arrangement that entails debt payments shall be entered. For approved requests and purchase requisition, commitments will be posted to the budget ledgers. Strong expenditure commitment controls are therefore in places that limit commitments to approved budget allocations which are routinely checked by accountants and approved by the head of public bodies.

(ii) Scope, relevance and understanding of other internal control regulations and procedures

Internal control procedures are indicated in the accounting system manual and in the internal audit manual and had been in practice for so many years. The regulations and procedures are comprehensive in terms of coverage. The internal control procedures include document management, procedure for request, approval and payment of expenditures and evidencing (documenting) of such payments. The procedures also outline the recording and reporting of expenditures. However, the procedure in the application of suspense vouchers for advance payments indicate weakness in the controls over petty cash payments as the suspense voucher would be destroyed upon settlement and replaced by a regular cash payment voucher. No audit trail is available to make sure that suspense vouchers are not held in the hand of cashiers beyond the specified period of time. BPR is undergoing to improve procedures for cost effectiveness.

iii) Degree of compliance with regulations on the processing and registration of transactions³⁰

All these internal control systems are in place with their effectiveness audited by internal and external auditors. In addition to the internal auditors at each BI, the Internal Audit process unit at the level of BoFED follow-ups audit findings. Because of these monitoring procedures, there has been little non-compliance with rules for processing and recording transactions and misuse of simplified and emergency procedures. Non-compliance detected by ORAG is reported every six months. The magnitude of such irregularities in compliance is insignificant as compared with the total volume of expenditures.

³⁰ Sources: BoFED Accounts, Internal Audit Support process unit

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-20	A	B	Scoring Method M1
(i) Effectiveness of expenditure commitment controls.	A	B	Comprehensive expenditure commitment controls are in place and effectively limit commitments to approved budget allocation for all expenditure. Good revenue performance, and strengthened cash flow forecasting and cash management help to minimize the risk of cash unavailability at the time of payment.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	A	B	Other internal control rules and procedures are relevant and incorporate a comprehensive set of controls and the BPR exercise is looking into the overall cost effectiveness on the set of controls, which are widely understood and practiced There are few internal control weaknesses in certain areas
(iii) Degree of compliance with rules for processing and recording transactions.	A	B	Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification as indicated in the report of the office Auditor General

2007 PEFA Assessment

It seems that the 2007 assessment was over scored. It is evident that internal control activities have improved with the enhancement of internal and external audit activities.

PI-21 Effectiveness of Internal audit

Effective internal audit function should meet International Standards such as the International Standards for the Professional Practice in Internal Audit (ISPPIA) issued by the institute of internal Auditors.

Internal Audit Support Process Unit (IAPU) within BoFED is in charge of internal audit activities in the region. The department is staffed with six personnel. Its main activities are reviewing and follow-up of internal audit reports submitted by the internal auditors of the respective BIs. Each BI has internal audit unit staffed with 2-3 auditors and reporting to the Head of the BI and IAPU. The earlier audit manual was revised after the reform following BPR. IAPU provides training to internal auditors of BIs.

Each internal audit unit submits its annual audit plan to IAPU before the commencement of the new fiscal year.

(i) Scope and quality of internal audit function

The internal audit manual is prepared based on the Federal Government internal audit manual. The internal audit manual meets professional standards. Almost 90% of the internal audits are financial audits. Audit of property administration, compliance audit and performance audits are also conducted though the coverage is too little. Systems and performance audits are not yet widely accomplished because of capacity limitation. The lowest administration units, Kebeles, are audited by IAPU, as there is no internal audit function at their level. Out of the twelve BIs, 3 of not have not commenced the internal audit function.³¹ The audit reports submitted by internal audit units of BIs were reviewed by IAPU.

(ii) Frequency and distribution of reports

Internal audit reports are prepared every six months and reported to the audited entity and to IAPU. No internal audit reports are submitted to ORAG as there is no legal requirement to do so. However reports can be supplied upon request.

(iii) The administration's reaction to internal audit conclusions

Since EFY 2002 , IAPU follows-up the reaction of the head of the audited BI. If reactions to the findings of the internal audit are not responded to in 30 days time, IAPU will issue a report for immediate action, with a cc to the bureau of the President. IAPU will submit a six month report to the Cabinet, indicating the audit findings of the various internal audit units and the action taken so far and those issues need the attention of the cabinet.

Based on the estimation of IAPU, audit comments and conclusions will be responded within two to three months time from the date of audit report.

Until EFY 1999, the internal audit function was centralized at BoFED and internal auditors were auditing the various BIs. The existing setup (the decentralized one) of internal audit has been implemented since EFY 2000. The performance of the Internal Audit Support Process Unit has improved in EFY 2002 as a result of the implementation of the Business Process Re-engineering (BPR) exercise

³¹ Internal Audit Support Process, BoE internal audit support process unit.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-21	C+	C+	Scoring Method: M1
(i) Coverage and quality of the internal audit function.	C	C	Internal audit function is operational in 9 out of the 12 sector bureaus. The emphasis of the audit function is no financial audits; systems auditing is not yet established due to capacity limitations. Kebeles are audited by IAPU.
(ii) Frequency and distribution of reports.	B	B	There is a fixed semi-annual report and no report is issued to ORAG
(iii) Extent of management response to internal audit findings.	A	C	A fair degree of action taken by many managers on major issues but often with delays. The situation has improved in EFY 2002

EMCP

In EFY 2000 a new organizational structure for internal audit has been approved and implemented by BoFED. The Region has received the new internal audit manual from MoFED. BOFED also has a training manual, which has been distributed to all sector bureaus.

2007 PEFA Assessment

The quality of internal audit has improved from what it had been in the 2007 assessment. Internal audit function was decentralized and more capacity building training provided to internal auditors and support provided in enhancing the quality of the audit report. There is deterioration with respect to the extent of managers' response to internal audits though the situation has improved in EFY 2002 after the introduction of BPR.

3.5. Accounting, recording and reporting

Four set of indicators are assessed under this section dealing with accounts reconciliation, information on resources received by service delivery units, the quality and timeliness of in-year budget reports and annual financial statements.

PI-22 Timeliness and Regularity of Reconciliation of Accounts

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants. This is an important part of internal control and a foundation for good quality information for management and for external reports.

(i) *Regularity of bank reconciliations*

Bank statements for the treasury account are provided by CBE on a daily basis. Statements of other bank accounts are issued on a monthly basis.. Most of the BIs are reconciling their bank accounts within seven days from end of the month. Some Kebeles are reconciling their bank accounts within 20 days from the end of the month.³²

³² BoFED

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

Reconciliation and clearance of suspense accounts and advances take place monthly within two weeks following end of period. There is a systemic problem of reconciliation of deposits made in relation to revenue (by the Revenue Authority) .Revenue Authority is depositing all tax revenue collection into the treasury accounts. Certain deposits remain in suspense even beyond a year. BoFED treasury could not account for them according to the appropriate account classification as the corresponding details of the deposit as to the type of revenue were not available.³³.

Most of the suspense and advance payments are reconciled at year end.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-22	B	C+	Scoring Method M2
(i) Regularity of bank reconciliations	A	B	Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	C	C	Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year. Unidentified deposits of RA were carried forward for subsequent years.

2007 PEFA Assessment

The introduction of the Zero account system and experience with IBEX has helped to improve the reconciliation process. The A scoring for Dimension (i) in the 2007 assessment did not appear to take into account the non-treasury managed bank accounts; the rating should have been B.

PI-23 Resources received by service delivery units

This indicator assesses the effectiveness of the PFM systems in tracking information on resources (cash, materials in kind like drugs and school books) received by service delivery units providing resources at the community level. (Schools and health clinics).

i) Compilation and processing of information to show the resources effectively received (in money or in kind) by the majority of front-line service delivery units (with particular focus on primary schools and primary health care clinics) in relation to the resources made available by the relevant sector or sectors, regardless of the level of government responsible for the functioning and funding of these units

The charts of accounts are detailed at the level of service delivery unit and it is possible to track both the budget and the actual expenditures at this level. Parliament members visit

³³ *Idem*

every year for review of the actual work done³⁴. In addition service level reports are compiled annually by the respective sector office, for instance, BoH, and BoE³⁵.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-23	A	A	Scoring Method M2
(i) Collection and processing of information on service delivery units	A	A	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the region. The information is compiled into reports on a monthly and annual basis.

2007 PEFA Assessment

The good performance in the EFY 1996, 1997 and 1998 are maintained also in the EFY 1999, 2000 and 2001.

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

Appropriate and periodic information on budget execution is necessary for the BoFED to monitor fiscal performance and for the sector bureaus to be able to manage their budget. This indicator covers in-year budget execution reporting of the region.

(i) Scope of the reports in terms of coverage and compatibility with budgetary forecasts

The accounting system is computerized using IBEX. The system generates reports within a month's minimum time span. Hence it is possible to generate reports on a quarterly and yearly basis. The most common reports generated by the system are budget and actual expenditures, which includes in year budget adjustments and transfers. The system also generates reports of budgeted and actual revenue. There are a number of report filtering criteria like by budgetary institutions, by source of fund (treasury, loan and assistance or all) by projects and sub projects etc.

On a regular basis BIs are sending a monthly trial balance, where this report is encoded at regional BoFED level. BoFED generates consolidated quarterly reports including trial balances, actual and budgeted revenue and expenditures.

The classification of data allows direct comparison to the original budget.

(ii) Timeliness of report presentation

Quarterly reports are completed within 29 days from the end of the quarter. Monthly reports are delivered to BoFED in 20 days from the end of the month³⁶.

³⁴ BoFED, budget and finance standing committee

³⁵ BoE, BoH

³⁶ BoFED

(iii) Quality of information

Data on in-year execution reports appear to be accurate. Minor data entry errors at the level of Kebele and some BIs are communicated to BIs and corrected by BoFED³⁷. The monthly reconciliation and budgetary control enhance the quality of the reports.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-24	A	C+	Scoring Method M1
(i) Scope of reports in terms of coverage and compatibility with budget estimates	A	C	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at payment stages but not at commitment stage.
(ii) Timeliness of the issue of reports	A	A	At BI level monthly reports are produced and issued to BoFED and at BoFED quarterly consolidated reports are prepared.
(iii) Quality of information	A	A	There are no material concerns regarding data accuracy. Unlike the situation in other regions, Harari has not woreda governments and is also very small, thereby reducing the chances of data inaccuracy.

2007 PEFA Assessment

Dimension (i) was over-scored in the 2007 assessment, as commitments were not reported on. Otherwise the good performance in EFY 1996, 1997 and 1998 have been maintained.

PI-25 Quality and timeliness of annual financial statements

Consolidated year - end financial statements are critical for transparency in the PFM system. To be complete the financial statements must be based on details for public bodies and must be prepared timely. In addition, to be generally acceptable, national standards set by a government or other authorized body must usually be aligned with international standards such as the international federation of accountants' international public sector accounting standard (IPSAS).

(i) Comprehensiveness of financial statements

A consolidated Regional government statement is prepared annually by BoFED. It includes information on revenues and expenditures, financial assets and liabilities³⁸. However the statements do not include donor funded expenditures.

³⁷ Sources: BoFED

³⁸ BoFED financial statements

(ii) Timeliness in the presentation of financial statements

The statement has to be legally submitted for external audit within six months of the end of the EFY and the Office of the Regional Auditor General (ORAG) has four months to forward it to the House of People's Representatives.

The submission date of the financial statements to the office of Auditor General was within 9 months, 6 months and 10 months from the end of the fiscal year for the EFY 1999, 2000 and 2001 respectively.

TABLE 17: FINANCIAL STATEMENTS: SUBMISSION TO ORAG & TIMELINESS OF SUBMISSION

FINANCIAL STATEMENTS	EFY1999 (2006/07)	EFY2000 (2007/08)	EFY2001 (2008/09)
Submission to ORAG	April 8, 2008	January 8, 2009	February 2, 2010
Timeliness of submission (Within the end of the EFY)	9 months	6 months	7 months

Sources: Accounts Department, BoFED and ORAG

(iii) Accounting standards used

Financial statements for the region are prepared on the basis of the Federal Government standard which is a modified cash basis of accounting⁴⁶ which is not fully aligned with IPSAS. The accounting basis is modified cash basis, where advances are recognized as receivables until evidence of expenditure are submitted. Revenues are recognized when received. For goods, services and works before the end of the fiscal year, payables are recorded as expenditure and accrued liability called grace period payable. Expenditures for non-current assets (fixed assets) are recorded as expenditure in the year of purchase.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-25	C+	C+	Scoring Method M1
(i) Completeness of the financial statements	A	B	A consolidated financial statement of BoFED is presented annually. It includes information on revenues and expenditures, financial assets and liabilities but omits information concerning some donor funded projects.
(ii) Timeliness of submission of the financial statements	C	B	The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.
(iii) Accounting standards used	A	C	Statements are presented in consistent format over time with some disclosure of accounting standards.

2007 PEFA Assessment

There is improvement in the timing of submission of financial statements since the 2007 PEFA. There is no change in the use of accounting standards since 2007 assessment. It seemed that the scoring in 2007 PEFA was over scored in terms of the accounting standards in use and the information on donor-funded projects.

3.6. External scrutiny and audit

The set of indicators assessed under this section deals with the scope, nature and follow –up of external audit, legislative scrutiny of the annual budget law and external audit reports.

PI-26 External Audit

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of actual external audit comprise the scope of the audit, adherence to appropriate auditing standards including independence of the external audit body, focus on significant and systemic PFM issues in its reports and performance of the full range of financial audit.

(i) Scope/nature of the audit carried out (including compliance with auditing standards)

Financial audits focusing on systemic problems as well as performance audits are performed and generally adhere to INTOSAI / AFROSIE standards, with the critical exception that the audit reports are not published,³⁹ The regional ORAG has audited public bodies. The public enterprise in the region is audited by other external auditors and hence is not audited by ORAG. The audit coverage of ORAG increased from year to year. Out of the total 36 public bodies, 12 of them are audited in the EFY 1999. This number increased to 15 and 17 in the EFY 2000 and 2001 respectively.

The types of audits conducted by ORAG are financial audits and compliance audit, performance audits and special audits. In addition ORAG audited the annual financial report compiled by BoFED. Three performance audits are made in the year 2001. The performance audit was conducted only on one government body in each year of EFY 1999 and 2000.

TABLE 18: SCOPE/NATURE OF AUDITS CARRIED OUT ON HPNR GOVERNMENT BODIES & AUDIT STANDARDS (EFY 2001)

Elements covered	% of Institution audited	Audits carried out	Audit standards applied
- Income	EFY 1999- 33.0%	- Financial audits	- INTOSAI & AFFROSAE
- Expenditure	EFY 2000 – 41.6%	- Special audits	
- Assets			
- Liabilities (debt)	EFY 2001 – 47.2%	- Performance audits	

Source: ORAG

³⁹ International Federation of Accountants and International Auditing and Assurance Standards Board (Source: OFAG)

Though the data are not available explicitly, the audited BIs total expenditure represents more than 50% of the regional government expenditures.

(ii) Timeliness of in the presentation of auditing reports to the Legislature

ORAG has been auditing the treasury consolidated account since EFY 1997. ORAG believed that the delay in completing the audits are a result of backlog of audits and estimated an average of six months to complete audit of the accounts of one fiscal year . As shown in the table below, the audit for the EFY 2000 was completed after fourteen months from receipt of the report from BoFED. The EFY 1999 audit was completed in EFY 2001, in the same year where the audit for the year 2000 was conducted.

TABLE 19: FINANCIAL STATEMENTS AUDIT BY ORAG

FINANCIAL STATEMENTS	EFY1999 (2006/07)	EFY2000 (2007/08)	EFY2001 (2008/09)
Received by ORAG	April 8, 2008	January 8, 2009	February 3, 2010
Audits of financial statements completed by ORAG submitted to legislature	June,2009	March 15, 2010	Not yet completed
(Duration of audits)	24 months	14 months	

Sources: Accounts Department, MOFED and OFAG

Other audit reports are issued to the legislature soon after their completion, usually within six months of the end of the financial year. These reports are distributed to the auditee, the President and to the speaker of house. Summarized audit reports are submitted to the Regional Council annually and presented by the Auditor General.

(iii) Evidence of follow-up on audit recommendation

In EFY 2000 12 public bodies gave responses to the recommendations of ORAG while no response was made by one public body. In 2001 5 public bodies responded to ORAG indicating the measures they undertook while 3 public bodies did not respond. The Internal Audit Support Process unit at BoFED had also made follow-up for external audit recommendations though evidence was not available during the assessment. ORAG makes follow up as to the measures taken during the next audit. In EFY 2001 the legislature instructed the finance and budget committee to follow up the measures taken by the audited public bodies and investigate their problems. Accordingly in a letter dated 12 February 2001 (EC) the chairman of the standing committee presented a report to the office of the speaker.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-26	D+	C	Scoring Method M1
(i) Scope/nature of audit performed (including adherence to auditing standards).	D	C	Central government entities representing at least 50% of total expenditures are audited annually. Financial audits with focus on systemic issues, compliance and performance audits are carried out. INTOSAI standards are generally adhered to, with the critical exception that audit reports are not published; this is the limiting factor in terms of scoring this dimension.
(ii) Timeliness of submission of audit reports to legislature.	B	C	Audited annual accounts are submitted to the legislature more than 12 months from the end of the period covered. For the EFY1999 and 2000, the delay was about 24 and 14 months respectively. Audit reports on public bodies are generally submitted within six months of the end of the financial year (C rating is a simple average)
(iii) Evidence of follow up on audit recommendations.	C	C	Follow-up on audit recommendations are made by ORAG and the finance and budget committee. Formal responses were made by some public bodies. In EFY 2000 12 PBs responded indicating the measures taken while in EF Y2001 8 PBs responded. The number of public bodies responding as a percentage of the total (32 public bodies) is small.

2007 PEFA Assessment

Generally there is improvement in the scope of coverage and in the timeliness of submission of the audit report to the legislature. It seems that the PEFA of 2007 regarding dimension (ii) was over scored as "B" instead of "D". Much of the backlog audit activities are accomplished between the year 1999 and 2002.

PI-27 Legislative scrutiny of the annual budget law

The legislator gives the government the power to spend the approved budget through the passing of the annual budget.

i) Scope of the legislature's scrutiny

BoFED prepares the draft budget and submits it the Regional Cabinet who in turn reviews and recommends to the Regional Council. The budget and finance standing committee reviews and prepare proposal to the Council. Details of revenue and expenditure are

reviewed. In the budget document information on GDP forecasts, medium term fiscal frameworks are not included. Issues of priority issues which are the basis for the budget proposal are included.

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

There is a dedicated standing committee for the review of the budget, named 'Budget and finance standing committee'. There are written procedures on the review process. There were instances when the budget standing committee received the draft budget when the budget is about to be discussed at the Council without reviewing it in advance.

iii) Degree to which the Legislature has sufficient time to respond to the Budget Bill's propositions, both in terms of detailed estimates and (where relevant) macro-fiscal aggregates at the start of the Budget preparation cycle (time required, in practice, for all stages).

In the financial calendar of the region it is stated that the legislature has at least 30 days two June 1 to June 30 E.C to review and approve the budget.

In most cases the budget and finance standing committee received the draft budget proclamation three days before the budget is supposed to be delivered to the council. There is little time to exhaustively review the budget. The discussion of the council lasts no more than a day as it is only the draft budget law (revenue and expenditure) that is being presented to the Council. The practice of visits to BIs by the Budget and Finance standing committee before the meeting of the council to deliberate on the budget has also helped to familiarize committee members on issues in the budget and complete the discussion in a day.⁴⁰

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

Clear rules exist for in year budget amendments regarding transfers and supplementary budgets. Supplementary budgets are not frequent and are not more than two times per year. Supplementary budgets are approved by the Regional Council and are proclaimed.

Budget transfer procedures without prior approval by the legislature are clearly stated in each budget proclamation and the Financial Administration Proclamation. Accordingly BoFED and the cabinet can make budget transfers that will not result in an overall increase in the approved budget.

⁴⁰ *Idem*

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-27	D+	D+	Scoring Method M1
(i) Scope of the legislature's scrutiny.	A	C	The review is limited to the draft budget proclamation, details of revenue and expenditures (recurrent and capital) when detailed proposals are finalized.
(ii) Extent to which the legislature's procedures are well-established and respected.	A	C	There are rules but partially implemented
(iii) Adequacy of time for the legislature to provide response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle	D	D	The standing budget and finance committee has no more than three days to review the budget
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	A	B	Clear rules exist for in year budget amendments and are respected but allow extensive administrative reallocations

2007 PEFA Assessment

The 2007 scores for the legislature's scrutiny of the budget and the procedures for the review, dimensions (i) and (ii) are exaggerated.

PI-28 Legislative scrutiny of external audit reports

Once the budget is approved, the legislature has a key role in exercising scrutiny over it.

(i) Timeliness of examination of audit reports by the legislature (for reports received within the past three years).

The finance and budget committee acts on audit reports in 30 days time from the receipt of audit reports.

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

The main findings are summarized and compiled by ORAG. Hearings are conducted by the legislature. Summary of the audit findings are distributed to invited participants including journalists. The parliament discussions were aired live through the region's FM radio.⁴¹ The hearings, however, are not "in-depth".

⁴¹ Budget and Finance standing committee, General Auditor

(iii) Issuance of recommended actions by the legislature and implementation by the executive.

The legislature issues recommended actions to be followed up by the executives. Follow-up on audit recommendations has been accomplished by the standing committee since EFY 1999.⁴² The Budget and Finance Standing Committee will review the audit recommendations and follow-up, including paying visits to the auditee. In EFY 2002, , the Budget and Finance Standing committee conducted two sessions in the presence of the Auditor General which helped to enhance the follow-up and implementation of audit recommendations.

Indicator and Dimension	Score		Explanation
	2007	2010	
PI-28	C+	C+	Scoring Method M1
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	A	A	Scrutiny of audit reports is usually completed within one month from receipt of the audit report
(ii) Extent of hearings on key findings undertaken by the legislature	C	C	No in-depth hearings have been conducted by BFC, apart from 2 sessions during EFY2002.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	C	B	The legislature issues recommendations on action to be implemented by the executive, and evidence exists that some are implemented.

2007 PEFA Assessment

There is improvement in audit review, since 1999 by the Budget and Finance Standing Committee .There is also an improvement in actions taken by the executive.

3.7. Donor Practices**D1 Predictability of Direct budget support**

Direct budget support consists of all un earmarked donor funds deposited to the central treasury account to support the government's domestic revenue.

Budget support is provided to the Federal Government to finance the block grant to the Regional Governments. This indicator is therefore not applicable to the HPNRG as the region doesn't receive direct budget support.

D2 Financial information provided by donors for budgeting and reporting on project and program aid.

The dimensions to be assessed in this indicator are:

- (i) Completeness and timeliness of budget estimates by donors for project support
- (ii) Frequency and coverage of reporting by donors on actual donor flows for project support.

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

Donor assistance is provided to the region directly through channel 1 in addition to the fund (loan and assistance) that comes through MoFED which is channeled to BoFED. There are also channel 2 donor funds which are directly transferred to sector bureaus from Federal Sector Ministries. Donors also provide assistance directly to sector bureaus. In addition there are donor funds from NGOs, (Channel 3) that directly finance projects without going through sector bureaus.

Donors that finance projects/programs in the region are ADB, IDA, South Korea, Germany and UN Agencies (UNICEF, UNDP and UNFPA).

By far most donor loans and assistance are channel 1 funds that come from MoFED to BoFED . In fiscal year 2001 five multilateral and one bilateral donor financed fourteen projects.

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

Within BoFED, there is a unit which is in charge of compiling data and reporting on bilateral and multilateral funds⁴³. Donors listed above provide reports on budget implementation but not consistent with the government's budget classification.

Indicator	Score		Explanation
	2007	2010	
D2	NU	D+	Scoring Method (M1)
(i) Completeness and timeliness of budget estimates by donors for project support	NU	C	Reports are complete and there is a system where project supports are known in advance. However, the budget classifications of donor funds are not consistent with the government budget classifications.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	NU	D	Reporting is normally made up on accomplishment of activities. However, as a minimum, report has to be submitted within six months time from the date of transfer of the fund.

⁴³ It is assumed that the unit is preparing these reports behalf of the donors. The staffs of the unit are not paid by BoFED

D3 Proportion of aid that is managed by use of national procedures**(i) Overall proportion of aid fund to regional government that are managed through national procedures.**

The dimension to be assessed is the overall proportion of aid funds to regional government through national procedures. The use of national procedures refers to the banking, authorization, procurement, accounting, audit, disbursement and reporting arrangement for donor funds. Donors that use the government budget classification systems are World Bank, IDA, and ADB. For the UN system, a harmonized chart of account issued by MoFED is being used.

With regard to banking arrangements, bank accounts are opened by BoFED for donor funded projects but these accounts are not part of the zero balance account system.

These funds are audited by external auditors, the government Audit Services Corporation.

The procurement procedures being undertaken are those of the donors. The donors have their own procurement manuals.

Indicator	Score		Explanation
	2007	2010	
D3	NU	D	Scoring Method (M1)
Overall proportion of aid funds to regional government that are managed through national procedures	NU	D	Less than 50% of aid funds to the regional government are managed through national procedures. Donor project accounts are not part of the zero-based balance account system; reports are not incorporated with the existing regional government reporting system and national procurement procedures are not used.

4. Government Reform Process

4.1. Description of recent and ongoing reforms

One of the reform programs of the government that is related to PFM reforms is the Public Sector Capacity Building Program (PSCAP). The major areas of PSCAP reform are: Service Delivery, Expenditure Management and Control Program (EMCP) Human Resource Management, Ethics and Top Management Systems⁴⁴. The EMCP has been the primary vehicle for PFM report in the country. Currently, the reforms covered under the EMCP are legal framework, budget, accounts, internal audit and control, cash management, procurement, government property management and financial information systems⁴⁵.

Another major building block of the PSCAP is the District Level Decentralization Program (DLDP). Its objective is to deepen the devolution of power to the lower tiers of regional governments aimed at institutionalizing decision making processes at grass-root levels with a view to enhance democratic participation, capacity building for woreda development planning and financial control and refinement of minimum service standard for woredas⁴⁶.

Recent reforms include program budgeting which has started on a pilot basis at the federal level and Business Process Re-engineering (BPR) studies which aims at reviewing the working practices and procedures in order to avoid duplication of activities and ensure efficient delivery of tasks and services. It has contributed to the fine tuning of the PFM reform programs.

4.2. Institutional factors supporting reform planning and implementation

The EMCP is being coordinated by a unit under MoFED with a full time focal person with a rank of State Minister to steer the reform program⁴⁷. The unit ensures the timely roll out of the reform programs to the regions after it has been successfully implemented at the federal level. PSCAP on the other hand is being coordinated by the Ministry of Capacity Building. There is a coordination regarding PFM issues between the government and Donors. Donor assistance especially through PSCAP and PBS has been instrumental in financing the reform program.

⁴⁴ Ministry of Capacity Building, (MoCB) Public Sector Capacity Building Program, First Annual progress Report Addis Ababa June 2006

⁴⁵ Public Finance Management Report, Ethiopia, December 2009

⁴⁶ MoCB, June 2006

⁴⁷ Public Finance Management Report, December 2009

ANNEXES

Annex 1: Performance indicators summary**Annex 1. 1: Aggregate Expenditure overrun compared to original approved budget – EFY 1999**

code	functional head	budget	actual	difference	absolute	percent
111	Regional council	14,951,200	14,443,709	(507,491)	507,491	3.4%
113	Office of The Auditor General	948,400	910,712	(37,688)	37,688	4.0%
115	President Office	1,569,400	3,746,855	2,177,455	2,177,455	138.7%
121	Bureau of Justice	2,349,900	1,422,648	(927,252)	927,252	39.5%
122	Supreme Court	4,572,000	4,072,691	(499,309)	499,309	10.9%
127	Police Commission	8,510,100	11,072,144	2,562,044	2,562,044	30.1%
129	Prison Administration	2,970,500	2,961,886	(8,614)	8,614	0.3%
150	General Services	4,631,000	4,158,673	(472,327)	472,327	10.2%
211	Agriculture & Rural Development	6,960,000	6,344,669	(615,331)	615,331	8.8%
231	Trade, Industry and Urban Development	9,764,200	9,133,117	(631,083)	631,083	6.5%
232	Small scale and micro enterprise development office	2,461,000	6,818,988	4,357,988	4,357,988	177.1%
235	Investment, Promotion and Development office	146,900	137,046	(9,854)	9,854	6.7%
273	Road Authority	10,851,000	814,008	(10,036,992)	10,036,992	92.5%
275	Housing Development Agency	943,000	2,075,178	1,132,178	1,132,178	120.1%
311	Education, Capacity Building and Training	30,840,300	30,591,114	(249,186)	249,186	0.8%
341	Health	19,642,600	20,136,061	493,461	493,461	2.5%
351	Culture and Social Affair	5,911,200	6,383,160	471,960	471,960	8.0%
400	Contingency	16,277,000	-	(16,277,000)	16,277,000	100.0%
416	Transfer to Municipality	-	14,665,182	14,665,182	14,665,182	
418	Water and Drainage Authority	-	2,429,295	2,429,295	2,429,295	
419	Microfinance	-	2,000,000	2,000,000	2,000,000	
	Others (Sum of rest)	682,900	875,142	192,242	192,242	28.2%
	total expenditure	144,982,600	145,192,278	209,678	209,678	0.1%
	composition variance	144,982,600	145,192,278		60,753,932	41.9%

**Annex 1. 2: Aggregate Expenditure overrun compared to original approved budget
– EFY 2000**

code	functional head	budget	actual	difference	absolute	percent
111	Regional council	19,405,400	14,283,316	(5,122,084)	5,122,084	26.4%
113	Office of The Auditor General	911,200	1,072,000	160,800	160,800	17.6%
115	President Office	2,575,900	5,417,986	2,842,086	2,842,086	110.3%
121	Bureau of Justice	1,903,000	2,200,732	297,732	297,732	15.6%
122	Supreme Court	4,137,700	3,854,090	(283,610)	283,610	6.9%
127	Police Commission	9,187,700	12,673,777	3,486,077	3,486,077	37.9%
129	Prison Administration	3,138,900	3,802,320	663,420	663,420	21.1%
150	General Services	3,847,500	5,366,676	1,519,176	1,519,176	39.5%
211	Agriculture & Rural Development	6,732,500	6,079,513	(652,987)	652,987	9.7%
231	Trade, Industry and Urban Development	4,412,600	3,092,902	(1,319,698)	1,319,698	29.9%
232	Small scale and micro enterprise development office	1,209,500	2,297,025	1,087,525	1,087,525	89.9%
235	Investment, Promotion and Development office	171,900	212,955	41,055	41,055	23.9%
273	Road Authority	30,806,800	7,869,061	(22,937,739)	22,937,739	74.5%
275	Housing Development Agency	3,014,800	3,889,221	874,421	874,421	29.0%
311	Education, Capacity Building and Training	29,138,000	34,952,144	5,814,144	5,814,144	20.0%
341	Health	19,902,900	21,861,388	1,958,488	1,958,488	9.8%
351	Culture and Social Affair	7,245,100	6,482,225	(762,875)	762,875	10.5%
400	Contingency	9,260,000	-	(9,260,000)	9,260,000	100.0%
416	Transfer to Municipality	2,000,000	8,000,000	6,000,000	6,000,000	300.0%
418	Water and Drainage Authority	2,129,900	2,855,900	726,000	726,000	34.1%
419	Microfinance	-	2,150,000	2,150,000	2,150,000	
	Others (Sum of rest)	1,230,200	1,306,904	76,704	76,704	6.2%
	total expenditure deviation	162,361,500	149,720,135	(12,641,365)	12,641,365	7.8%
	composition variance	162,361,500	149,720,135		68,036,621	41.9%

**Annex 1. 3: Aggregate Expenditure outrun compared to original approved budget
– EFY 2001**

code	functional head	budget	actual	difference	absolute	percent
111	Regional council	21,358,500	18,465,627	(2,892,873)	2,892,873	13.5%
113	Office of The Auditor General	1,005,300	1,143,898	138,598	138,598	13.8%
115	President Office	2,333,200	3,543,139	1,209,939	1,209,939	51.9%
121	Bureau of Justice	2,130,500	2,969,853	839,353	839,353	39.4%
122	Supreme Court	3,404,200	4,151,875	747,675	747,675	22.0%
127	Police Commission	10,915,700	10,585,612	(330,088)	330,088	3.0%
129	Prison Administration	3,884,700	4,556,801	672,101	672,101	17.3%
150	General Services	6,374,000	9,187,563	2,813,563	2,813,563	44.1%
211	Agriculture & Rural Development	5,542,400	5,125,836	(416,564)	416,564	7.5%
231	Trade, Industry and Urban Development	2,268,300	2,201,321	(66,979)	66,979	3.0%
232	Small scale and micro enterprise development office	1,298,600	1,579,816	281,216	281,216	21.7%
235	Investment, Promotion and Development office	308,000	310,918	2,918	2,918	0.9%
273	Road Authority	55,753,474	29,948,437	(25,805,037)	25,805,037	46.3%
275	Housing Development Agency	5,909,563	7,396,951	1,487,388	1,487,388	25.2%
311	Education, Capacity Building and Training	36,300,400	41,641,702	5,341,302	5,341,302	14.7%
341	Health	24,898,000	28,992,333	4,094,333	4,094,333	16.4%
351	Culture and Social Affairs	14,037,900	9,185,009	(4,852,891)	4,852,891	34.6%
400	Contingency	9,000,000	-	(9,000,000)	9,000,000	100.0%
416	Municipality	8,178,000	8,178,000	-	-	0.0%
418	Water and Drainage Authority	6,872,100	6,347,850	(524,250)	524,250	7.6%
419	Microfinance	4,000,000	4,000,000	-	-	0.0%
	Others (Sum of rest)	849,500	1,001,986	152,486	152,486	18.0%
	total expenditure deviation	226,622,337	200,514,527	(26,107,810)	26,107,810	11.5%
	composition variance	226,622,337	200,514,527		61,669,554	27.2%

Annex 2: Aggregate Revenue outturn compared to original approved budget

Description	1999		2000		2001	
	Approved Budget	Actual Revenue	Approved Budget	Actual Revenue	Approved Budget	Actual Revenue
Tax Revenue	16,326,900	20,747,428	23,130,700	28,621,233	31,727,500	26,069,085
Tax on Income, Profit and Capital Gain	14,399,500	18,508,415	21,314,500	26,434,820	29,087,650	22,851,070
Value Added Tax /VAT/					90,000	
Value Added Tax On Services			8,400			
Excise Taxes on Locally Manufactured Goods		732,221				
Sales Turnover Tax On Locally Manufactured Goods	402,600	209,449	251,500	389,262	1,331,550	538,935
Service Sales Tax	1,123,300	519,870	627,300	902,587	435,500	1,655,892
Stamp Sales and Duty	190,000	71,031	85,300	172,048	782,800	258,795
Telecommunications	45,100	32,778	39,300	28,210		64,523
Commission Agent	166,400	670,353	804,400	694,306		699,870
Excise Taxes on Imported Goods		3,312				
Non-Tax Revenue	11,673,100	9,767,637	5,230,800	4,461,480	10,272,500	12,429,655
Administrative Fees and Charges	307,300	877,850	808,600	800,679	863,500	705,739
Sales of Public Goods and Services	1,889,200	1,707,427	1,090,400	1,697,142	7,403,000	2,099,874
Government Investment Income	165,000	150,411	159,200	63,239	100,200	58,270
Miscellaneous Revenue	9,311,600	7,031,949	3,172,600	1,900,420	1,905,800	9,565,773
Capital Revenue		197,037				
Subsidy Revenue	120,530,000	127,334,500	126,000,000	126,000,000	135,480,000	135,480,000
Total including Subsidy	148,530,000	158,046,602	154,361,500	159,082,713	177,480,000	173,978,740
Total Excluding Subsidy	28,000,000	30,712,102	28,361,500	33,082,713	42,000,000	38,498,740
		109.69%		116.65%		91.66%

Annex 3: Actual budgetary allocations by sectors in ETB Millions for the EFY 1999, 2000 and 2001

	1999	2000	2001	1999	2000	2001
Administration and General Service	43,664,460	49,977,801	55,606,354	30.07%	33.38%	27.73%
Organs of State	19,101,276	20,773,302	23,152,664	13.16%	13.87%	11.55%
Justice and Security	19,529,369	22,530,919	22,264,141	13.45%	15.05%	11.10%
General Public Services	4,158,673	5,366,676	9,187,563	2.86%	3.58%	4.58%
Others	875,142	1,306,904	1,001,986	0.60%	0.87%	0.50%
Economy	25,323,006	23,440,677	46,563,279	17.44%	15.66%	23.22%
Agriculture & Natural Resource	6,344,669	6,079,513	5,125,836	4.37%	4.06%	2.56%
Water, Mining & Energy Resource Dev Bureau				0.00%	0.00%	0.00%
Industry And Trade	16,089,151	5,602,882	4,092,055	11.08%	3.74%	2.04%
Construction and Urban Development	2,889,186	11,758,282	37,345,388	1.99%	7.85%	18.62%
Others				0.00%	0.00%	0.00%
Social	57,110,335	63,295,757	79,819,044	39.33%	42.28%	39.81%
Education, training and Capacity Building	30,591,114	34,952,144	41,641,702	21.07%	23.34%	20.77%
Culture and Sport	6,383,160	6,482,225	9,185,009	4.40%	4.33%	4.58%
Health	20,136,061	21,861,388	28,992,333	13.87%	14.60%	14.46%
Others				0.00%	0.00%	0.00%
Contingency	19,094,477	13,005,900	18,525,850	13.15%	8.69%	9.24%
Others	19,094,477	13,005,900	18,525,850	13.15%	8.69%	9.24%
Grand Total	145,192,278	149,720,135	200,514,527	100.00%	100.00%	100.00%

Annex 4: Global Fund budget disbursement EFY 1999, 2000 and 2001

Round	Component	US\$	Status	Receipt Type	Grant Number	Date	Disbursed in US\$
6	TB	11,792,574	G1	Gov:MOH	ETH-607-G06-T	01-Feb-08	7,878,422
7	HIV/AIDS	64,955,789	G1	CS/PS:NGO	ETH-708-G07-H	01-Apr-09	3,089,816
				Gov:Oth	ETH-708-G08-H	01-Jan-09	22,443,435
				CS/PS:NGO	ETH-708-G09-H	01-Jan-09	6,780,027
8		133,089,526	G1	Gov:MOH	ETH-809-G10-M	01-Nov-09	72,178,615
9		19,383,242	B1				
							112,370,315

Source: Global Fund Annual Report, 2010

B1: Board Approved

G1: Per Grant Agreement

Annex5: List of people contacted

	Name	Organization	Position	Telephone
1	Ekram Ziad	Office of the Auditor General	Audit Services Implementation and Follow-up Process Unit Head	0915-766591 025 666 4099
2	Muhidin Ahmed	BoFED	Deputy Head of BoFED	0915-757056
3	Abdulbasit Abubakar	BoFED	Government Accounts Process Head	0256661819 0913 489076
4	Bogale Lema	BoFED	Internal Audit Support Process Head	0913 084000, 0256 661762
5	Salah Mohammed	BoFED	Policy and Income Account (GDP) Officer	0915 747200
6	Fantu Zergaw	BoFED	Budget Expert	0915 757699
7	Amina Abdulkarim	BoFED	Public Procurement and Property Administration Process Owner	0915 766204
8	Bogale Gidey	Bureau of Health	Purchase, Finance and Property Administration head	0256661731
9	Khalid Yusuf	Bureau of Health	Procurement Officer	0913 332395
10	Abdulkerim Abdurahman	Bureau of Education	Process owner of Procurement, Finance and Property Administration	
11	Elisabeth Berhanu	Bureau of Education	Accountant	
12	Kedir Mohammed	Bureau of Education	Internal Audit head	
13	Kebede Mulatu	Bureau of Education	Purchase officer	
14	Haji Bedri Mohammed	Chamber of Commerce	Tax appeal committee representative	
15	Abdu Shikur Jami	Chamber of Commerce	Member / Contractor	
16	Nebil Yusuf	Chamber of Commerce	Chairman	
17	Haile Bekele	Chamber of	Secretary	

		Commerce	General	
18	Sofian Ahmed	Regional Council	Budget and Finance Standing Committee chairman	0915 742863
19	Salhadin	BoFED	Accounts	
20	Fantu Zergaw	BoFED	Budget accountant	0915 757699
21	Daniel Edris	BoE	accountant	9011 936970

Donor Agencies

Mr. Ephraim Zewdie, Economist, EU Delegation, Addis Ababa

Ms. Benedetta Musillo, Economic Attache, EU Delegation, Addis Ababa

Mr. Christoph Wagner, Head of Section, Economic, Trade, Social, Regional Integration, EU Delegation, Addis Ababa

Ato Hiwot Mebrate, Social Development Advisor, Embassy of Ireland, Addis Ababa.

Mr. Hans Poley, First Secretary Economic Affairs, Netherlands Embassy, Addis Ababa

Dr. Paul Dorsey, Dulcian, Ethiopia (IBEX Project)

Dr. Stephen Peterson, former project manager of DSA project

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