

Federal Government of Ethiopia
Ministry of Finance and Economic
Development

OROMIA REGIONAL GOVERNMENT PEFA
ASSESSMENT REPORT

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CURRENCY AND EXCHANGE RATES

Currency unit = Ethiopian Birr (ETB)

€ 1 = ETB 22.59 (As of September 30th, 2010)
US\$ 1 = ETB 16.39 (As of September 30th, 2010)

Government Fiscal Year (FY): July 8 – July 7

| Ethiopian Fiscal Year (EFY) | Gregorian (European year Equivalent) |
|------------------------------------|---|
| 1999 | 2006/2007 |
| 2000 | 2007/2008 |
| 2001 | 2008/2009 |
| 2002 | 2009/2010 |
| 2003 | 2010/2011 |

Abbreviations and Acronyms

| | |
|---------|---|
| ORG | Oromia Regional Government |
| ONRS | Oromia National Regional State |
| BOFED | Bureau of Finance and Economic Development |
| BPR | Business Process Re-engineering |
| COA | Chart of Accounts |
| CTA | Central Treasury Account |
| CBE | Commercial Bank of Ethiopia |
| CHT | Compliance Handling Team |
| ETB | Ethiopian Birr |
| EMCP | Expenditure Management and Control Programme |
| FAPMD | Financial Administration and Property Department |
| FINNIDA | Finnish International Development Agency |
| GF | Global Fund |
| IBEX | Integrated Budget and Expenditure System |
| IAD | Internal Audit Department |
| JBAR | Joint Budget and Aid Review |
| MOFED | Ministry of Finance and Economic Development |
| NBE | National Bank of Ethiopia |
| ORAG | Office of Regional Auditor General |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Finance Management |
| PBS | Protection of Basic Services |
| PI | Performance Indicator |
| PSCAP | Public Sector Capacity Building Programme |
| SIDA | Swedish International Development Agency |
| TSA | Treasury Single Account |
| VAT | Value-Added Tax |
| TOFED | Town Office of Finance and Economic Development |
| WOFED | Woreda Office of Finance and Economic Development |
| ZOFED | Zonal Administration Office of Finance and Economic Development |

SUMMARY ASSESSMENT

(i) Integrated Assessment of PFM Performance

This sub-section summarizes Chapter 3 in terms of the six core dimensions of PFM performance and donor practices. The “Credibility of the Budget” core dimension represents the “outcome” core dimension, reflecting the influences of the other five core dimensions plus donor practices (as indicated in the flow chart in page 4 of the PEFA Framework document). The indicator-by-indicator scores are reproduced in the summary table at the end of this section. As measured under Performance Indicators (PIs) 1-4, the budget appears to lack predictability and therefore credibility, with PI-2 scoring D. Even though the budget preparation process appears sound (PI-11), there are significant deviations between actual and budgeted expenditures (according to the approved budget) for many of the public bodies. A large salary contingency may be overstating the situation, however (allocation of this to public bodies during the year has little or no bearing on the quality of service delivery).

Strong positive factors in principle supporting budget credibility and predictability are:

The Expenditure Management and Control Programme (EMCP), under which PFM reforms have been designed and implemented over the last several years, focused on putting in place the basic nuts and bolts of a well-functioning PFM system:

- Strengthened budget preparation, execution, revenue administration, cash management, recording, reporting and accounting systems: PIs 11, 13-17, 19, 22-25.
- Tight internal control systems (PIs 18 and 20), preventing the emergence of domestic payments arrears. Such arrears can erode credibility of the budget as the unpaid bills eventually have to be paid off at the possible expense of service delivery programmes. The emerging internal audit function (PI-21) is beginning to play an effective oversight role in relation to internal control systems. (Given human resource capacity constraints, as highlighted in a recent assessment of EMCP, it is understandable that managers in line ministries perhaps have accorded higher priority to strengthening the basic components of the PFM system, as listed above, than to developing the internal audit function).
- Strengthening external audit function (PI-26)

Remaining Challenges.

A number of challenges, many of which are already being addressed, would help to further strengthen the credibility and predictability of the budget. The basic “nuts and bolts” of the PFM system are already in place, or close to being in place, as described in

the previous paragraph, are helping to enable the addressing of the remaining challenges:

(i) Strengthening Comprehensiveness, and transparency of the budget

- *Including the elements under PI-6 (Comprehensiveness of information included in budget documentation) that are not presently included in budget documentation (e.g. macro-fiscal framework, historical and revised current year revenue and expenditure figures, stock of financial assets, explanation of budget implications of new policies). More comprehensive and analytical budget documentation submitted to the Economics Committee in the Regional Council would strengthen the Committee’s ability to determine the extent that proposed budgets are consistent with public policy objectives and priorities. The Regional Council (represented by the Budget and Finance Committee) is presented with the draft budget proclamation consisting mainly of tables of disaggregated estimates of revenue and expenditures for the coming fiscal year, with no historical context provided and no explanation of how they were arrived at (PI-27).*
- *Further increasing the proportion of donor-funded projects and programmes funded through Channel 1 modalities and, within Channel 1, increasing the proportion using the government’s budget classification system and other elements of SNNPRG PFM’s system (budget execution mechanisms – including procurement -- accounting and reporting, and external audit). While donor project and programme funding is increasingly being integrated into the budget preparation process (through increasing use of the Channel 1 funding modality relative to the Channel 2 and 3 funding modalities), nevertheless, a significant amount of public services appears to be funded outside the scrutiny of the budget preparation process and is not being transparently reported on (e.g. Global Fund, one of the largest sources of extra-budgetary funding) and accounted for: PIs 7, D2 and D3.*
- *Further improving the comprehensiveness and transparency of information provided to the public (i.e. meeting the currently unmet benchmarks listed under PI-10, particularly the budget documentation submitted to the Regional Council, timely provision of in-year budget execution reports and publication of contract awards, audited financial statements and the audit reports on budget entities). While comprehensiveness and transparency of information provided to the public is strengthening, the ability of the public to demand accountability from the government in the allocation of budgetary resources is still limited.*
- *Strengthening the transparency of the procurement system (PI-19): Systems appear not to be sufficiently in place for the recording of, and reporting on, contracts awarded according to the type of procurement method, and the justifications for using restrictive competitive procurement methods instead of open competitive bidding. Transparency of budget execution is diminished as a result and the public and legislature are not assured that inputs are being procured in the most cost-effective manner.*

(ii) Strengthening External Scrutiny:

Strong demand by the legislature for accountability supported by an effective external audit function can help to induce a strengthened supply of accountability by the executive branch of government (through submission of draft budgets that are clearly consistent with public policy objectives and priorities and through more accurate, comprehensive and timely budget performance reports and annual financial statements. -- PIs 24-25):

- The quality of budget documentation currently submitted to the Budget and Finance Committee in the Regional Council (PI-6) could be further strengthened in order to support meaningful debate on the draft budget. At present, the documentation is mainly a list of revenue and expenditure estimates. Another challenge is to allow more time for legislative debate on the draft budget proclamation; the time currently allowed is far less than the one month that is supposed to be provided. More comprehensive and analytical budget documentation submitted to the BFC, and more time to review the draft budget would go some way towards the approval of an annual budget to which the actual expenditure outturn bears a greater resemblance. (PI-27).
- As provided for by legislation, the BFC has an official *ex-ante* role in assessing draft supplementary budgets (leading to further reallocations and an increase in total expenditure), but in practice this is an *ex-post* role undermining the fundamental role of the legislature to approve proposed appropriations before the money is spent (PI-27).
- The quality of the legislative scrutiny of external audit reports (PI-28) appears to have diminished in recent years, as indicated by the relatively low scores for the extent of hearings on key findings of audit reports and the extent that recommendations on corrective actions are issued to the executive branch of government and implemented. Strengthening the ability of the Regional Council to demand accountability for the efficient use of public funds would have a beneficial influence on the credibility of the budget. The recent establishment of a Public Accounts Committee (separating the function from the Budget and Finance Committee) is a positive step forwards.

(iii) Strengthening the medium-term perspective to the budgeting process:

While costed strategic plans have been prepared, the linkages to the annual budget are limited. Preparation of forward spending estimates that could help inform the rational setting of annual budget ceilings is still in its early stages. Forward spending estimates - perhaps in a programme budgeting framework that currently is being prepared by MOFED -- would support more accurate budgeting for the provision of public services under existing policies, provide a basis for introducing new policies consistent with fiscally realistic costed strategic plans, and strengthen linkages between proposed capital expenditure and the future recurrent costs associated with this: (PI-12).

(ii) Prospects for reform planning and implementation

The PFM reform process has been underway for several years, through the Expenditure Management Control Programme and the Public Sector Capacity Building Programme. The emphasis has been on getting the basics of PFM right in terms of the mechanics of budget preparation, revenue administration, budget execution, internal controls, cash management and accounting and reporting. These mechanics are now more or less in place, thereby facilitating the addressing of the remaining challenges, as recognized by the Government. These include – as elaborated on above -- the strengthening of the linkages between public expenditure and policy objectives and the strengthening of transparency and accountability.

Summary of Performance Indicator Ratings

| Note: Shaded areas represent M2 scoring methodology | | Overall | I | ii | iii | iv |
|--|---|---------|-----|-----|-----|----|
| A. Credibility of the Budget | | | | | | |
| PI-1 | Aggregate expenditure out-turn compared to original approved budget M1 | B | B | | | |
| PI-2 | Composition of expenditure out-turn compared to original approved budget M1 | D | D | | | |
| PI-3 | Aggregate revenue out-turn compared to original approved budget M1 | A | A | | | |
| PI-4 | Stock and monitoring of expenditure payment arrears M1 | B+ | A | B | | |
| B. Comprehensiveness and Transparency | | | | | | |
| PI-5 | Classification of the budget M1 | B | B | | | |
| PI-6 | Comprehensiveness of information included in budget documentation M1 | D | D | | | |
| PI-7 | Extent of unreported government operations M1 | D+ | D | B | | |
| PI-8 | Transparency of inter-governmental fiscal relations: M2 | B+ | B | B | A | |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities M1 | A | A | A | | |
| PI-10 | Public Access to key fiscal information M1 | C | C | | | |
| C (i) Policy-Based Budgeting | | | | | | |
| PI-11 | Orderliness and participation in the annual budget process M2 | B+ | A | A | C | |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting M2 | D+ | D | NA | C | C |
| C (ii) Predictability and Control in Budget Execution | | | | | | |
| PI-13 | Transparency of taxpayer obligations and liabilities M2 | A ▲ | A | B ▲ | A | |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment M2 | B ▲ | B | B ▲ | C ▲ | |
| PI-15 | Effectiveness in collection of tax payment M1 | C+ | AS | C | B | |
| PI-16 | Predictability in the availability of funds for commitment of expenditures M1 | C+ | B | A | C | |
| PI-17 | Recording and management of cash balances, debt and guarantees M2 | B | NA | B | NA | |
| PI-18 | Effectiveness of payroll controls M1 | B+ | B | A | A | B |
| PI-19 | Competition, value for money and controls in procurement | C | D | C | B | |
| PI-20 | Effectiveness of internal controls for non-salary expenditure M1 | B | B | B | B | |
| PI-21 | Effectiveness of internal audit M1 | C+ | C | A | C | |
| C (iii) Accounting, Recording and Reporting | | | | | | |
| PI-22 | Timeliness and regularity of accounts reconciliation M2 | B+ | B | A | | |
| PI-23 | Availability of information on resources received by service delivery units M1 | C ▲ | C ▲ | | | |
| PI-24 | Quality and timeliness of in-year budget reports M1 | C+ ▲ | C ▲ | A | B ▲ | |
| PI- | Quality and timeliness of annual financial statements M1 | C+ | B | B | C | |

| Note: Shaded areas represent M2 scoring methodology | | | Overall | I | ii | iii | iv |
|---|---|-----------|---------|----|----|-----|----|
| 25 | | | | | | | |
| C (iv) External Scrutiny and Audit | | | | | | | |
| PI-26 | Scope, nature and follow-up of external audit | M1 | C+ | C | A | C | |
| PI-27 | Legislative scrutiny of the annual budget law | M1 | D+ | C | C | D | D |
| PI-28 | Legislative scrutiny of external audit reports | M1 | C+▲ | A | C▲ | C▲ | |
| D. Donor Practices | | | | | | | |
| D-1 | Predictability of Direct Budget Support | M1 | NA | NA | NA | | |
| D-2 | Financial info provided by donors for budget, reporting on project, programme aid | M1 | D+ | C | D | | |
| D-3 | Proportion of aid that is managed by use of national procedures | M1 | D | D | | | |
| HLG-1 | Predictability of transfers from Federal Government to ORG | | A | A | | | |

1. Introduction

1.1. Objective

As stated in the terms of reference (TOR) issued by the EU, the objective of the PEFA assessments is to gauge the quality of PFM at federal and sub-national level in Ethiopia. As noted in the TOR “Aside from providing donors with an assessment of Ethiopia’s PFM, it is intended that the information/analysis included in this PEFA will be of value to the GoE in its own ongoing efforts to reform and improve the quality of its financial management systems”. Oromia Region is one of the sub-national governments selected for the study. The Ethiopian Government agreed to carry out the assessment in 2010 as part of the dated covenants for the next phase of the donor-supported Protection of Basic Services (PBS) project. A PEFA assessment of PFM performance in Oromia was also conducted in 2007, so another purpose of the 2010 assessment is to track progress in PFM system performance since 2007.

1.2. Process of preparing the report

A consultancy team of four was contracted to conduct PEFA assessments of the Federal Government, Addis Ababa City Government, and five regions, including Oromia. Two of the consultants (Peter Fairman, international consultant and team leader, and Getachew Gebre, local consultant) conducted the Oromia regional assessment (also Amhara and Southern Nations and Nationalities Peoples’ Region). The team visited Oromia Region during 3-5 March, 18 March, 22 March and intermittently during the week of 12-16 April (when Peter Fairman made a second visit to Ethiopia in relation to the JBAR conference being held that week). The main contact point was the Bureau of Finance and Economic Development (BOFED) and most of the meetings were held there. The team also met the Office of Regional Auditor General, the Revenue Authority, the Bureau of Education and the Regional Council.

The first draft of the report was submitted to the EU on 26 April, 2010. Some information gaps remained, and these were mainly filled during the JBAR conference. A second draft was submitted to EU on 8 July, 2010, along with the second drafts of the reports of the other regions covered by the PEFA exercise and the integrated regional government report that the team leader prepared during June. Detailed comments on the Oromia report were provided by the World Bank on 6 September (the Bank and African Development Bank also provided some general comments on all the reports in early August), and by the Oromia Regional Government and PEFA Secretariat on 13 September.

The team leader visited Addis Ababa during September 15-17 in order to take part in a 2 day workshop organized by the federal government Ministry of Finance and Economic Development (MOFED) to discuss the federal, Addis Ababa city and the five regional government assessments. He made a presentation, summarizing the main findings of the regional government assessments. During the workshop he met with

regional government representatives to discuss their comments and fill in remaining information gaps.

1.3. Scope of the Assessment

The assessment covers the regional bureaus in the Oromia Regional Government, as well as the Office of the Regional Auditor General (ORAG) and the Oromia Regional Council. A later study will assess the PFM systems in the woreda governments. Regional bureau expenditure comprises about 40 percent of consolidated regional bureau and woreda government (abbreviated as Oromia National Regional State – ONRS) expenditure. Under some of the indicators it is not possible to separate out ORG expenditure from ONRS expenditure: PI-5, PI-25 and PI-26. Furthermore, in relation to donor-financed operations, it is not always easy to distinguish donor spending at regional bureau level from spending at woreda government level.

2. Oromia Region Background Information

2.1. General Information ¹

Oromia is the largest and most populous regional state in the country. It has a land area of 359,620 square kilometers, straddling the middle of the country, and has a very varied topography (high mountains, valleys, rolling plains and lowlands, including part of the Rift Valley). Reflecting its geographical diversity, rainfall varies considerably from 400 mm a year in the south to 2,400 mm a year in the Western Highlands. Fifty percent of the country is at least 1,500 metres above sea level, the variety of heights also causing a wide range of temperatures around the region (reflected in tropical, sub-tropical and temperate zones). Oromia shares borders with most of the other regional states (except Tigray and Harari) and with Kenya and Sudan. Based on the 2003/04 Population and Housing Census, the population of the region was estimated at 28,098,000 in 2004, accounting for over 35 percent of the population of the country. The urban population is estimated at 12.8 percent of the population.

Oromia's economy is based on agriculture (mainly rain-fed, subsistence), accounting for 69 percent of Oromia's GDP and employing 89 percent of the labour force. Oromia accounts for a large proportion of Ethiopia's agricultural exports: coffee, hides and skins, pulses and oil seeds. Increases in agricultural output and productivity are constrained by several factors, including traditional farming methods and rapid population growth, which is causing fragmentation and reduction of farm sizes and contributing to natural resource degradation. Development of irrigation systems is a high priority of the Oromia government. Oromia also has significant water (lakes, rivers, energy, mineral, wildlife and historical and cultural resources). Oromia accounts for nearly 100 percent of Ethiopia's hydro power generation and has considerable potential for further hydro developments. Once large forest resources are being rapidly depleted.

The Oromia Regional Government (ORG) is geographically divided into 17 zonal administrations, which function as deconcentrated agencies of the regional bureaus (Bureau of Finance and Economic Development – BOFED – and the sector bureaus) headquartered in Addis Ababa. Within the geographical area of each zone administration fall several woreda governments and urban administrations, which, under Ethiopia's decentralized system of government, have their own governing councils. The zonal administrations in effect act as an intermediary (for example, for the channeling of budget performance reports) between the woreda governments and the ORG bureaus. Altogether there are 301 woreda governments (262 rural, 39 urban).

The structure of government is similar at all the different levels of government. The regional equivalent of the federal Ministry of Finance and Economic Development (MOFED) is the BOFED, located in Addis Ababa. The zonal administration equivalents are known as offices (ZOFEDs). Similarly, sector ministries at federal level have their equivalents at regional government level in the form of 35 sector bureaus/authorities located in Addis Ababa and their offices in the zones. Woreda governments form the level of government immediately below the regional government level. The Woreda Office of Finance and Economic

¹ This section is extracted from the Oromia BOFED's website (www.romiabofed.org), which also contains a very comprehensive regional atlas (both physical and social geography).

Development (WOFED) forms the equivalent of BOFED, while sector offices at woreda level form the equivalent of sector bureaus at regional government level.

Similarly, the external audit and legislative oversight function is broadly the same as at federal government level. The external audit function is conducted by the Office of the Regional Auditor General (ORAG). The ORAG covers woreda governments as well as ORG. The legislative oversight function is conducted by the elected Regional Council.

As with other regions, the Oromia Government takes its lead from the Federal Government in relation to economic development strategies and government reform programmes. The overall development strategy of the Federal Government is the “Plan for Accelerated and Sustained Development to End Poverty, (PASDEP), 2005/06-2009/10”. A follow-up is currently under preparation. Oromia sector bureaus base their sector development strategies on sector ministry strategies (particularly education, health, agriculture, water resources and roads), themselves based on PASDEP.

Implementation of development strategies requires effective government, for which a well-functioning PFM system and a capable civil service are pre-requisites. The Expenditure Management and Control Program (EMCP) and Public Sector Capacity Building Programs, led by MOFED and Ministry of Capacity Building respectively, which have been in existence for several years, are the main vehicles for implementing PFM reform and strengthening capacity.

2.2 Description of Budgetary Outcomes

Table 1: Summary of ONRS Budgetary Operations

| ETB millions | 2006/07 | 2006/07 | 2007/08 | 2007/08 | 2008/09 | 2008/09 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Budget | Actual | Budget | Actual | Budget | Actual |
| Total Financial Resources | 3728 | 3739 | 5519 | 5829 | 6724 | 7250 |
| Region's Revenues | 600 | 763 | 700 | 1088 | 950 | 1358 |
| Federal Government Subsidy | 2975 | 2975 | 4600 | 4601 | 5571 | 5656 |
| External Assistance & Loans | 153 | 2 | 181 | 103 | 203 | 232 |
| Subsidy from Loan | | | 37 | 37 | | 4 |
| Total Expenditures | 3803 | 3803 | 5626 | 5480 | 6932 | 7161 |
| <i>Recurrent</i> | <i>3083</i> | <i>3196</i> | <i>4491</i> | <i>4412</i> | <i>5218</i> | <i>5401</i> |
| Admin. & General Services | 770 | 864 | 1180 | 1258 | 1438 | 1594 |
| Economic Services | 510 | 522 | 739 | 783 | 767 | 941 |
| Social Services | 1637 | 1810 | 2118 | 2370 | 2839 | 2866 |
| Contingency | 165 | 0 | 455 | 0 | 174 | 0 |
| <i>Capital</i> | <i>721</i> | <i>607</i> | <i>1135</i> | <i>1068</i> | <i>1714</i> | <i>1760</i> |
| Admin. & General Services | 40 | 44 | 42 | 89 | 125 | 146 |
| Economic Services | 469 | 374 | 698 | 566 | 961 | 929 |
| Social Services | 212 | 189 | 394 | 413 | 628 | 685 |
| Balance | -76 | -63 | -107 | 349 | -208 | 89 |
| Use of Retained Earnings | 76 | 63 | 107 | -349 | 208 | -89 |

Note: Budget refers to approved budget

Source: Budget Proclamations, IBEX tables, trial balance sheet for end-2008/09 (from BOFED)

Table 1 shows the revenues, grants and expenditures for the Oromia National State Region (consolidated regional bureaus and woredas, with subsidies to woredas netted out). Unlike what is shown in the summary tables in the Budget Proclamations, the use of retained earnings from the previous year is shown as a “below-the-line’ financing item (consistent with Government Finance Statistics – GFS-methodology).

Table 2 summarises expenditure by broad economic classification.

Table 2: Economic Classification of ONRS Expenditure

| ETB millions | 2007/08 | | 2008/09 | |
|--|-------------|--------------|-------------|--------------|
| | Actual | % | Actual | % |
| Total Expenditure | 5480 | 100.0 | 7166 | 100.0 |
| Personnel Services (61) | 3441 | 62.8 | 3800 | 53.0 |
| Goods and Services (62) | 810 | 14.8 | 1252 | 17.5 |
| Fixed Assets & Construction (63) | 1052 | 19.2 | 1810 | 25.3 |
| Subsidies, investments & Other Payments (64) | 178 | 3.2 | 305 | 4.2 |

Source: IBEX tables and end-year trial balance sheets.

2.3. Legal and Institutional Framework for PFM

Legal framework for PFM

The legal framework for PFM is based entirely on the Federal government legal framework for PFM: Financial Administration Proclamations (the latest for Oromia is 2002/03 – EFY 1996), accompanying Financial Regulations, Annual Budget Proclamations (including proclamations for supplementary budgets), Tax proclamations, Procurement Proclamations and Proclamations concerning the Office of the Auditor General (ORAG). These are all referred to Section 3 under the relevant indicators.

Institutional Framework for PFM

Tax System: The regional government shares some taxes (described in Section 3 under PI-13) with the Federal Government. No revenue raising powers are assigned to woreda governments, but woreda revenue bureaus collect revenues on behalf of the regional government and retain a portion of them through revenue sharing agreements. A revised Tax Code Proclamation came into force in 2002/03.

Internal and External Audit

Development of the internal audit function is one of the components of the EMCP. It is described more fully under PI-21 in Section 3. A new proclamation with regard to the external audit function was approved in 2005 (referred to in PI-26).

Sub-National Governments

A new decentralized system came into force in the 1990s. The fiscal transfers aspect of this is covered under PI-8 in Chapter 3.

Procurement

The responsibility for procurement was largely devolved to line ministries/bureaus in 2002/03 through proclamation. Procurement is discussed in Section 3 under PI-19.

Planning and Budgeting

Under the DSA project in the early 2000s, a new budget manual was prepared, based on the Federal Government Manual. It finally came in effect in December 2007 (discussed further in Section 3 under PI-11).

Budget Execution, Cash and Debt Management, Reporting and Accounting

Use of IT in PFM systems has gathered pace. It started out in the early 2000s through the development of a computerised Budget Information System (BIS) for reporting on budget performance and a Budget Disbursement and Accounting System (BDA) at MOFED and BOFED level, both systems being stand-alone. These two modules were then merged under the umbrella of an Integrated Budget and Expenditure Management (IBEX) system, consisting of the following modules: budget, accounts, budget adjustment, budget control, accounts consolidation and administration. The accounts module manages the tracking of revenues and expenditures of public bodies: specifically, it records the financial transactions of budgetary institutions, captures the aggregated monthly accounting reports and provides accounting reports in the form of ledgers, financial statements, management reports and transactions listings.

In recent years IBEX was rolled out to BOFEDs and during 2008/09 and, in particular, since the beginning of 2009/10, it has been further rolled out to regional sector bureaus. With regard to ORG, electronic linkages between these bureaus and BOFED have not, however, been developed yet and financial information is still transmitted by the bureaus to BOFED through hard copy (CDs). Roll-out to 20 woredas was planned to start during 2009/10 through the oversight of zonal administrations.

In the meantime, the donor-financed IT project team located in MOFED is preparing an upgrading of IBEX to IBEX 2. This has entered the testing phase. It is more user friendly than IBEX 1.3. Roll out of the system to woreda governments is envisaged. A further upgrading of IBEX 2 to an IBEX 3 is currently being discussed, through the introduction of a performance program budgeting module, but, as the introduction of programme budgeting is currently stalled, this would probably only happen in the medium term.

PI-18 in Chapter 3 discusses budget execution control processes and issues in terms of management of the payroll. PIs-16-17 discusses processes and issues in terms of cash flow forecasting and cash management. PIs 22, 24 and 25 in Section 3 describe the reporting and accounting systems and issues thereof.

Business Process Re-engineering (BPR)

A major exercise during 2007'08 and 2008/09 was studies in all bureaus to determine how to improve administrative efficiency in support of strengthened PFM. Implementation of the recommendations of BPR (contained in various manuals, that can be read on the Oromia BOFED website in Oromian language) commenced in 2008/09 and is still ongoing. Implementation activities so far have included:

-
- Re-organisation of bureaus; e.g. in BOFED, the procurement, property management and financial administration departments were combined, to form the Financial Administration and Property Management Department, and departments have been re-designated as “business processes” for the core functions, such as budget preparation and financial administration, and “supportive processes” for supporting functions such as human resource management;
 - Reduction in the number of signatures required for the implementation of a process, such as procurement; (referred to under PI-20 in Section 3); and
 - Increase in the numbers of positions in internal audit departments in order to increase their effectiveness (referred to under PI-21 in Section 3).

Donor Funding modalities

Donor funding to Oromia is provided in the following ways:

- Through the PBS project: the funds are essentially budget support to the federal government, which is then incorporated into the federal government block grant transfer to regional governments.
- Channel 1: Donor funding for projects/programmes is channeled through MOFED to BOFED, or is provided straight to BOFED, which then allocates the funds to sector bureaus and woredas. Excluding Global Fund (a Channel 2 programme) the bulk of funding for projects/programmes is now provided through this modality, the proportion having increased markedly in recent years.
- Channel 2: Donor funding for projects/programmes is channeled through federal government line ministries to the corresponding sector bureau at regional government level, or is provided straight to the sector bureau.
- Channel 3: Donors (including NGOs) fund projects directly, by-passing both BOFED and sector bureaus.

3. Assessment of the PFM Systems, Processes and Institutions

3.1. Introduction

The following paragraphs provide the detailed assessment of the PFM indicators contained in the PFM PMF framework. The summary of scores is based on actual performance and is shown in the Summary Assessment above. The scoring methodology does not recognize ongoing reforms or planned activities but these are summarized at the end of the discussion on each section.

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where good performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given where any of the other dimensions are scoring higher.

Method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. It is prescribed for multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. A conversion table for 2, 3 and 4 dimensional indicators is used to calculate the overall score. In both scoring methodologies, the ‘D’ score is the residual score if the requirements for any higher score are not met. The PEFA handbook (“PFM Performance Measurement Framework, June 2005, www.pefa.org) provides detailed information on the scoring methodology.

3.2. Budget Credibility

Good practice in public financial management emphasizes the importance of the budget being credible so that planned Government policies can be achieved. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires appropriate fiscal discipline to be in place. The indicators in this group assess to what extent the budget is realistic and implemented as intended, particularly by comparing actual revenues and expenditures with original approved ones, and analyzing the composition of expenditure outturn. The matrix below summarizes the assessment of indicators relating to budget credibility.

Assessment of Performance Indicators of Budget Credibility

| No. | Credibility of Budget | Score | Dimensions | Scoring Methodology |
|------|---|-------|-----------------|---------------------|
| PI-1 | Aggregate expenditure outturn compared to original approved budget | B | (i) B | M1 |
| PI-2 | Composition of expenditure outturn compared to original approved budget | D | (i) D | M1 |
| PI-3 | Aggregate revenue out-turn compared to original approved budget | A | (i) A | M1 |
| PI-4 | Stock and monitoring of expenditure payment arrears | B+ | (i) A (ii) B | M1 |

3.2.1. PI-1 Aggregate expenditure out-turn compared to original budget

The ability to implement the budgeted expenditure is an important factor in supporting the government’s ability to deliver the public services for the year, as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the actual total expenditure compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports), but excludes two expenditure categories over which the government will have little control: debt service payments and donor-funded project expenditure.

In the case of Oromia Regional Government (ORG), debt service payments are zero as the stock of debt is zero; the Financial Administration Law does not allow ORG to borrow. Investment expenditure is divided into three categories: domestically financed, externally financed through grant assistance and externally financed through loans.² The budget and budget performance tables prepared by ORG clearly distinguish between the three different types of investment expenditure financing, so adding domestically-financed investment expenditure to recurrent expenditure is straightforward.

Annex A shows the original budgets for the ORG bureaus (including the zonal administrations), as approved by the Oromia Regional Council, for 2006/07, 2007/08 and 2008/09 and the actual outturns for these years. The ORG’s financial statements for 2008/09 have been submitted to the Office of the Regional Auditor General (ORAG) for audit.³ Total primary expenditure excludes fiscal transfers to woreda governments from ORG; as deviations of actual transfers from budgeted transfers impact on the predictability of the woreda budget rather than the regional bureau budget; in practice, however, actual transfers are very close to budgeted transfers.⁴ Table 2 is extracted from Annex A and shows the aggregate deviation (in absolute terms) in terms of percentage of the approved budget.

² It should be noted that externally-financed investment expenditure may include recurrent expenditure elements due to the nature of some projects. The justification for excluding such expenditure from aggregate expenditure for the purposes of calculating PI-1 and PI-2 still holds, however, as ORG still has less control over this type of expenditure than its own expenditure.

³³ The years shown correspond to Ethiopian Fiscal Years (EFY) 1999, 2000 and 2001.

⁴ Subsidies to woreda governments from ORG were budgeted to comprise 54%, 55% and 56% of total ORG expenditures (primary, as defined above, plus transfers) in 2006/07, 2007/08 and 2008/09 (EFY 1999-2001). External assistance and loans were budgeted to comprise 4%, 2% and 4% of total ORG expenditures in these same years respectively (as reported in the budget proclamations).

Table 3: ORG Regional Bureau Aggregate Expenditure Outturn and Approved Budget 1/

| ETB millions | 2006/07 Budget | 2006/07 Outturn | 2007/08 Budget | 2007/08 Outturn | 2008/09 Budget | 2008/09 Estimate |
|---|-------------------|--------------------|-------------------|--------------------|-------------------|---------------------|
| Total Primary Expenditure 2/ 3/ | 1594 | 1549 | 2391 | 2126 | 2683 | 2677 |
| Deviation (%) | -2.8% | | -11.1% | | -0.2% | |
| 1/ Years correspond to EFYs 1999-2001. 2/ Defined as total recurrent expenditure, less ORG budget subsidies to woreda and urban administrations, less interest payments (which, in any case, are zero) plus domestically-financed investment expenditure. 3/ ORAG audit of 2007/08 statements nearing completion. 2008/09 statements have been submitted to ORAG. | | | | | | |

Source: ORG BOFED Accounting Department,

Table 2 indicates a significant aggregate negative deviation in 2007/08 and small negative deviations in 2006/07 and 2008/09. The reasons are unclear as revenue collection sharply exceeded budgeted revenues in these two years (PI-3).

The assessment team also rated PI-1 for ONRS as a whole (consolidated regional bureaus plus woredas). The rating was A, with deviations of 4.1%, 1.2% and 3% for the three years under review.

| Score | Minimum Requirements | Justification | Information Sources |
|-------|--|--|--|
| B | i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure. | The deviations (in absolute terms) were 2.8%, 11.1% and 0.2% in 2006/07, 2007/08 and 2008/09 respectively. | ORG BOFED Accounting Department. Tables generated from IBEX. |

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The rating for ONRS (consolidated regional bureaus and woreda governments) was also A (deviations in absolute terms of 4.5%, 1.3% and 8.9% for 2003/04, 2004/05 and 2005/06, corresponding to EFYs 1996-1998).

3.2.2. PI-2 Composition of expenditure out-turns compared to original approved budget.

Where the composition of expenditure varies considerably from the original approved budget, the budget may not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level. The PI-2 indicator measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. The first step is to calculate the average of deviations between actual allocations and budgeted spending at ministry/agency level as a percentage of total budgeted expenditure. The second step is to subtract from this the aggregate deviation, as measured in PI-1 (aggregate expenditure must be the same in both cases).

The composition of budgeted and reported expenditure by administrative agency is shown in detail in Annex A for 2006/07-2008/09. Table 3 shows the measurement of PI-2, extracted from Annex A.⁵⁶

Table 4: ORG Regional Bureaus: Expenditure Composition Variance in Excess of Total Expenditure Deviation

| Year | For PI-1 Total expenditure deviation | Composition expenditure variance | For PI-2 Variance > total deviation |
|---------|--------------------------------------|----------------------------------|-------------------------------------|
| 2006/07 | 2.8 % | 26.5 % | 23.7 % |
| 2007/08 | 11.1 % | 15.1 % | 4 % |
| 2008/09 | 0.2 % | 20.9 % | 20.7 % |

Source: ORG BOFED. Deviations shown in absolute terms.

Deviations, both positive and negative, tend to be significant, reaching to over 20 percent of total primary expenditure each year. Out of the twenty largest budget institutions (BI: bureaus, authorities, offices/institutes), the only BI that spends more than its originally approved budget in all three years is the office of the Regional State President. ORG BIs that spend less than their approved budgets in each of the three years are: Agriculture Research Institute, Water Resources Bureau, Rural Roads Authority, Public Organisation and Social Affairs Bureau, and Legal Research and Training Institute.

Apart from transfers from BIs (those with negative deviations) to other BIs (with positive deviations), the contingency item (listed as public body 460 in the budget classification system helps to finance positive deviations. The approved budget for the contingency, representing up to just over 9 percent of total primary expenditure, is shown in Table 4. The contingency has been spent in its entirety every year through re-allocation to public bodies (and therefore shows as zero in the budget performance reports).

For the last two completed fiscal years, the salary contingency has comprised practically all the total contingency. The salary contingency represents a reserve for a total budgeted salary increase, but for which the allocation by public body is not yet determined. The salary contingency cannot be said to add to budget unpredictability, as its allocation merely adds to each employee’s salary, with no adverse consequences on service delivery (particularly as employees presumably know they will receive a salary increase during the year, thus not detracting from the incentive to work); i.e. it represents a price adjustment rather than a quantitative adjustment. Thus, the allocation of the salary contingency tends to overstate the unpredictability of the budget, as measured under PI-2,⁷ though, the reallocations between public bodies (excluding the contingency) appear to be the dominant factor in assessing budget predictability, as indicated by several negative deviations.

⁵ The deviations are explicitly shown for the largest 20 bureaus/offices, including “Compensation to Individuals and Institutions” (expenditure code 6416), in compliance with the PEFA Framework methodology. The deviations for the other 22 bureaus/offices are aggregated together as the 21st item in the table. The scores would likely differ if the extent of disaggregation was different (i.e. fewer or more than 20 bureaus/offices explicitly shown). The composition of the 20 largest BIs changed slightly over the three years; for example, the Regional Council, Culture Bureau and Irrigation Development Authority are shown in the table for 2006/07 but not in the tables for the other years, while the Legal Research and Training Institute and Urban Development and Work Bureau are not in the table for 2006/07 as they had not yet been created.

⁶ It should be noted that PI-2 in the PEFA Framework document is to be revised to take into account methodological issues that have arisen, particularly in the cases when nearly all deviations have the same sign and the contingency is relatively large. A revised methodology might result in different scores for ORG (mainly because of the contingency issue; public body deviations are both negative and positive).

⁷ In addition, the allocation of the contingency arguably overstates the extent of unpredictability, as the deviations are counted twice, once from the contingency to recipient public bodies and once for the corresponding increase in spending of the public body in relation to its approved budget. The contingency was the sixth largest item of expenditure in 2008/09 and thus is of significant size.

Table 5: ORG Contingency Expenditure

| ETB mills. | Budget 2006/7 | % Total Primary Expend. | Budget 2007/8 | % Total Primary Expend. | Budget 2008/9 | % Total Primary Expend. |
|------------------------------------|---------------|-------------------------|---------------|-------------------------|---------------|-------------------------|
| Salary contingency (code 6111) | 70 | 5.0 | 95 | 4.0 | 136.8 | 5.1 |
| Non-salary contingency (code 6415) | 80 | 4.4 | 5 | 0.2 | 7.2 | 0.3 |
| Total Contingency | 150 | 9.4 | 100 | 4.2 | 144 | 5.4 |

Source: ORG budget performance tables.

The resulting score is shown below.

| Score | Minimum Requirements | Justification |
|-------|---|--|
| D | i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years. | Variance in expenditure composition is calculated on the basis of the sum of the absolute differences between actual allocations and budgeted expenditures of each regional government bureau/office/zonal administration in 2006/07, 2007/08 and 2008/09, as indicated in Annex A, using information provided by BOFED, extracted from IBEX. The excess of the variance over the total expenditure deviation exceeded 10 percent in two out of the last three years. The much smaller excess variance in 2007/08 reflects the much larger aggregate expenditure deviation that year. The large salary contingency may overstate the variance. |

The assessment team also rated PI-2 for ONRS as a whole (consolidated revenue bureaus plus woredas). The rating was also D, with variance in expenditure composition exceeding overall deviation by 16% and 16.7% in 2006/07 and 2007/08 respectively (by 7% in 2008/09).

In discussing these tables with the BOFED authorities (and with those in other regions covered by this study), the issue was continuously raised that the “adjusted” and not the initial approved budget should be the reference point for comparison. The reasoning was that the amount of financial resources available for the new budget year was not known with certainty at the time of budget preparation because: (i) revenue estimates and projections of donor financing were not fully firmed up; and (ii) end-year revenue and expenditure performance was not fully known while the budget was being prepared and thus the retained revenue available for use in the new financial year was not fully known.

The assessment team stressed that the initially approved budget should be the reference point, not only because this is required by the PEFA Framework methodology, but also because sector bureaus should ideally be confident at the beginning of the year that the approved budget is a reliable guideline for indicating the financial resources that will be allocated to them for implementing the approved budgets. This facilitates better planning for the delivery of public services smoothly during the year. Revising the budget after the new fiscal year has started reduces the length of the planning period, with possible adverse impact on the quality of the public services that the bureaus are planning to deliver.

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Oromia scored C for PI-2 (the report incorrectly shows a D score), so predictability of the budget has not improved (though, the 2007 assessment covered woreda government expenditures – comprising more than half of total regional state expenditure -- so the two situations are not directly comparable). The list of public bodies shown is somewhat different (the 12 largest are shown, rather than the 20 largest, as required under the PEFA

methodology), also hindering comparability, but the organs of state show positive deviations for each year, while health BIs show negative deviations for each year, as under the 2010 assessment.

3.2.3. 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 based on that forecast. A comparison of budgeted and actual revenue provides an indication of the quality of revenue forecasting.

The macro-fiscal department in the ORG BOFED, in consultation with the Revenue Bureau (that was separated from BOFED in 2001/02) is responsible for revenue forecasting, using the Federal Government’s projections for inflation and real GDP growth (the macro-fiscal department has yet to develop its own macro-fiscal capacity).

The summary of revenue performance provided in Table 4 (details in Annex 1) indicates revenue performance far higher than the approved budget for all revenue components, despite large year-on-year increases budgeted for, partly reflecting strengthened tax administration. The large over-performance indicates a combination of inadequate forecasting (partly because ORG is using Federal Government projections for GDP growth, which may not be fully applicable to Oromia), inherent uncertainty of forecasts in an economy where weather-dependent agricultural activities play a large role, and conservatism in forecasting.

Table 6: Oromia National Regional State: Revenue Performance

| ETB million | 2006/07 | | | 2007/08 | | | 2008/09 | | |
|---|------------|------------|------------|------------|-------------|-------------|------------|-------------|-------------|
| | Budget | Outturn | Diff. | Budget | Outturn | Diff. | Budget | Outturn | Diff. |
| Tax revenue | 477 | 561 | 18% | 566 | 807 | 43% | 781 | 935 | 20% |
| Direct taxes (personal income, profits, cap. gains) | 447 | 520 | 16% | 504 | 748 | 49% | 737 | 864 | 17% |
| Indirect taxes (excise, VAT, turnover, sales) | 30 | 41 | 39% | 62 | 59 | -6% | 44 | 71 | 62% |
| Non-tax revenue (recurrent & capital) | 123 | 202 | 64% | 134 | 281 | 110% | 169 | 423 | 150% |
| TOTAL REVENUE | 600 | 763 | 27% | 700 | 1088 | 56% | 950 | 1358 | 43% |

Source: ORG BOFED, Accounts Section, Financial Administration and Property Management Department.

Note: This indicator has been assessed on a consolidated regional bureau plus woreda basis, rather than on a regional bureau basis.

This is because the regional bureau approved budget is not recorded in IBEX, only the ONRS approved budget. This is not an issue as the woreda governments do not earn their own revenues, but share regional government revenues.

| Score | Minimum Requirements | Justification |
|-------|---|---|
| A | i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years. | The figures, taken from revenue performance tables and trial balance sheets provided to the assessment team by BOFED Accounts Department. |

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The consolidation of regional bureau and woreda government revenue indicates an A rating, with revenue performance exceeding the budget estimates in two out of the three years and was only marginally below the estimates in the other year. The report notes a general weakness in forecasting revenue, with projections being based on federal government projections.

3.2.4. PI-4: Stock and monitoring of expenditure payment arrears

This indicator is concerned with measuring the extent to which there is a stock of arrears, and the extent to which the systemic problem is being brought under control and addressed.

A strong culture of paying bills on time (i.e. before they become overdue) is apparent in Ethiopia, at both federal and regional level (at least in the case of the regions covered by the team), in marked contrast to some other African countries. All wages and salaries are paid on the 24th of every month and invoices submitted by suppliers of goods and services are paid within a few days (providing sufficient supporting documentation is provided, for example, signed delivery receipts). Utility bills are paid on time, otherwise the utility companies cut off the services.

At the end of the financial year, it may be the case that invoices were received too late to be processed by year-end or have not yet been submitted, though the goods and services have been delivered. In this case, a “grace period” of 30 days is formally provided in respect of capital expenditures (Code 5001 in the Chart of Accounts and Section 34 in the 2009 Financial Administration Proclamation), during which time the invoices are paid. If they are not paid by the end of the grace period they are deemed to be in arrears (i.e. overdue payments). As indicated in the trial balances for ORG for 2008/09, grace period payables at the end of 2008/9 amounted to ETB 97.8 million, representing 5.4 percent of regional bureau 2008/09 expenditure (ETB 92 million at the end of 2007/08 and EB 55 million at the end of 2006/07). The trial balances are shown on a consolidated regional/woreda government basis (i.e. the figure includes woreda government grace period payables), so this proportion is probably lower in terms of regional bureau grace period payables alone. By the end of August, 2009 (September 10, according to the Ethiopian calendar), these payables had fallen to ETB 3.1 million, representing only 0.2 percent of total expenditure. By the end of September, 2009, the figure was zero.

Table 7: Oromia Regional Government 1/: Grace Period Payables

| | End-2006/07 | End-2007/08 | End-2008/09 | End-Aug/09 | End-Sept/09 |
|-------------------------------|-------------|-------------|-------------|------------|-------------|
| Stock of Payables (ETB mill.) | 54.5 | 92.2 | 97.8 | 3.5 | 0 |
| % Actual Expend. | 3.6 | 4.3 | 5.4 | 0.2 | 0 |

1/ Stock of payables refers to combined regional bureau and woreda governments. Expenditure defined on same basis as PIs 1 and 2.

Some grace period payables may be unpaid after 30 days (and thus are arrears), but this is the case only in the unlikely event that suppliers have not yet submitted their invoices, even though they had already delivered the goods and services prior to the end of the financial year, or if there is a dispute over whether the delivered goods and services met the contractual requirements. In either case, the unpaid grace period payables will show up in the trial balances of future months, as was the case at the end of 2008/09 (for July and August, 2009).

Apart from the grace period payables, the trial balances contains other types of accounts payables, as coded in the Chart of Accounts: sundry creditors (code 5002), pension contributions payable (code 5003), salary payable (code 5004), other payroll deductions (code 5005) and withholding tax payable (code 5006). Accounts payables in these other categories amounted to EB 22.9 million at the end of 2008/09 (1.3 percent of expenditure) and EB 28 million at the end of the first quarter of 2009/10.

The system does not, however, permit the reporting of the age profile of these payables in the IBEX system (although the source records would contain the data). In the absence of an age profile, it is not possible to make inferences about accumulation of arrears by comparing the stock of accounts payables at the end of a month with that at the end of the previous month (e.g. it is possible that all accounts payable at the end of the previous month were paid during the current month, and that the accounts payables at the end of the current month are all “new”);.

The roll-out of IBEX to the regional bureaus is enabling quicker and more accurate recording and reporting of accounts payables.

| Score | Minimum Requirements | Justification | Information sources |
|--------------------------|--|---|---|
| B+ (M1) | | | |
| A | i) The stock of arrears is low (i.e. is below 2 percent of total expenditure) | <p>The ORG has a culture of paying accounts payables on time.</p> <p>Regional bureau and woreda government grace period payables (COA code 5001) at the end of 2008/09 amounted to 5.4 % of total domestically financed regional bureau expenditure and this proportion is likely lower for regional bureau grace period payables alone. Grace period payables were 0.2% of end-2008/09 expenditure at the end of August, 2009 (thus representing arrears) and were zero at the end of September. Other accounts payable amounted to 1.3% of expenditure at the end of 2008/09 and 1.6% of expenditure at the end of the first quarter of 2009/10, but the age profile is not known.</p> | - Trial balance sheets for end-2006/07-2008/09, trial balance sheet for end of first quarter of 2009/10 and budget performance reports for these three years. Provided by Head of Accounting Division in Financial Administration and Property Management Department, Oromia BOFED. |
| B | (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions. | <p>Arrears are only defined in terms of the grace period payables (COA code 5001) that remain unpaid at the end of the 30 day grace period. The grace period relates to payments due for goods and services received before the end of the year but not yet paid for (perhaps because the invoice has not yet been received or there is a contractual dispute). The modified cash accounting system, associated double entry book-keeping system and the roll-out of IBEX to regional bureaus during 2008/09 and 2009/10 have strengthened the reliability and timeliness of data on grace period payables.</p> <p>The accounting system does not as yet permit the age profiling of accounts payables other than the grace period payables. But these payables are usually paid on time, due to the culture of compliance with regulations (and the threat of cut-off of utility services) and thus ad-hoc periodic assessments of the stock of arrears are not considered necessary by BOFED.</p> | - As above. |

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This indicator was not scored. The data indicated an A rating for dimension (i), but the assessment team was unable to validate the data..

3.3. Comprehensiveness and transparency

The indicators in the Comprehensiveness and Transparency dimension of PFM assess to what extent the budget and fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public. The matrix below summarises the assessment of indicators under this dimension.

| No. | B: Cross-cutting issues: Comprehensiveness and Transparency | Score | Dimensions | Scoring Methodology |
|-------|--|-------|----------------------------|---------------------|
| PI-5 | Classification of the budget | B | (i) B | M1 |
| PI-6 | Comprehensiveness of information included in budget Documentation | D | (i) D | M1 |
| PI-7 | Extent of un-reported government operations | D+ | (i) D (ii) B | M1 |
| PI-8 | Transparency of inter-governmental fiscal relations | B+ | (i) B (ii) B (iii) A | M2 |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities | A+ | (i) A (ii) A | M1 |
| PI-10 | Public access to key fiscal information | C | | M1 |

3.3.1. PI-5: Classification of budget

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

The budget classification system at regional level is exactly the same as at the Federal level (the Federal Government budget classification system is described in the Federal Budget Manual, 2007, and the Federal Chart of Accounts manual, May 2007 and also in the Oromia Budget Manual 2004), and so the score is the same as in the Federal PEFA assessment taking place at the same time as the regional government assessments.⁸

The budget classification system at both Federal and regional level is on an administrative basis grouped under three functions (Administrative Services (100), Economic Services (200) and Social Services (300)), and, under each function, by sub-function (e.g. code 210 represents the sub-function of Agriculture and Natural Resources under the Economic Services function and code 211 represents the Bureau of Agriculture and Rural Development under this sub-function). The economic classification system (e.g. personnel emoluments) is shown under each public body (and by sub-agency within each public body where relevant). The budget classification system includes programme and sub-programme codes, though these are not yet used, as programme budgeting has not yet been adopted.

The budget classification system does not correspond exactly to COFOG standards, but broadly meets GFS standards (in terms of economic classification). A bridging table matching MOFED budget classification codes to COFOG has not yet been developed, although the IBEX system includes an application that would permit bridging; although the functional codes and sub-functional codes differ from COFOG, the intent of public spending is indicated in the codes and mapping to COFOG functions is clearly possible. Thus at least a B rating is warranted. An A rating (mapping to COFOG sub-functions) may even be possible in principle, but to determine this would have required the assessment team to review the IBEX application and there was not enough time to do this.

| Score | Minimum Requirements | Justification | Information Sources |
|-------|---|--|---|
| B | i) The budget formulation and execution is based on administrative, economic and functional | The budget classification system (as described in the Federal Government's budget manual and Chart of Accounts manual) is on an administrative basis, with spending based on administrative units, the | -- Federal Budget Manual, January 2007 -- Federal Accounting System Manual, Volume 2, Chart of |

⁸ The draft budget manual was prepared by the Decentralisation Support Activity Project in 2004.

| | | | |
|--|---|--|--|
| | <p>classification using at least the 10 main COFOG functions, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.</p> | <p>economic classification under each administrative unit and with each administrative unit classified according to function (three functions) and sub-function. A bridging table has not yet been developed to match the functional and sub-functional codes with COFOG, but the the codes currently in use clearly reflect the intent of public expenditure. In response to the 2001 GFS manual, MOFED, with technical assistance support from donors, developed an application under IBEX a few years ago that would facilitate the preparing of a bridging table. An A rating may be justified, but there was not enough time for the team to review the application..</p> | <p>Accounts, May 2007. -- Oromia Region Budget Guide, 2004, prepared by Budget Reform Team of ORG and the donor-supported Decentralisation Support Activity project.</p> |
|--|---|--|--|

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Oromia National Regional State (ONRS) Government was rated A (the same as for the other regions covered by the assessment). This seems too high as COFOG is not used, a bridging table has not been prepared by MOFED and it is not clear that the sub-functional classifications used by MOFED would be consistent with the COFOG sub-functions.

3.3.2. PI-6: Comprehensiveness of information included in budget

Annual budget documentation (annual budget and budget supporting documents) should inform the executive, the legislative, and the general public and assist in informed budget decision making and transparency and accountability. In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the elements in the table below.

The only budget document submitted by BOFED to the Oromia Regional Council is the draft budget proclamation. The detailed budget estimate document, which includes expenditure by economic classification under each sub-agency falling under a public body, is not submitted. Neither is Oromia’s regional development plan, which includes some macro-fiscal and budget performance information (thus, including more information in the budget documentation should be reasonably straightforward).

The main components of the draft budget proclamation (the approved one is more or the same) consist of:

- Summary of appropriations according to regional bureau recurrent and capital expenditure and subsidies to woredas (according to domestic and external sources of financing);
- A summary table showing recurrent and capital expenditure according to the three main functions (administration and general services, economic services and social services), subsidies to woredas and contingency, and a summary of financing (tax and non tax revenue, federal government subsidy, external assistance and loans, and retained earnings);
- A summary table showing expenditure by function (3) and sub-function (16) plus subsidies to woredas and contingency;

- A table of estimated revenues by line item according to the budget classification system (e.g. line 1101, tax on wages and salaries);
- A table of estimated external assistance and loans by donor agency.
- Recurrent budget tables according to public body and sub-agency (within each public body) by source of funding (Treasury and own-source revenue), but not by economic classification for each sub-agency within each public body.
- Capital budget tables according to projects under each public body/sub-agency.

The GFS format of presenting the summary fiscal picture is not completely followed. Regional governments have no debt liabilities and are not allowed to borrow, so the issue of the correct accounting treatment of debt amortization does not arise (it should appear ‘below-the-line’ as a negative financing item, rather than as an expenditure item “above-the-line”). The revenue estimates may include savings from the current budget year (“residual surplus” – line 1461 in the budget classification system -- which is the excess of revenue and grants inflows over expenditures), which is contrary to the GFS treatment, which classifies the use of such savings as a ‘below-the-line’ financing item.⁹

During the budget preparation process, proposals for “new” expenditure initiatives (resulting in new public services or expanded levels of services currently being provided) require justification and, as part of this, projections of the future recurrent costs associated with proposed new investments. But the budget documentation submitted to the Regional Council does not mention new initiatives.

This indicator is assessed in terms of the following elements:

| No. | Item | Available | Source |
|-----|---|----------------|---|
| 1 | Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate | No | ORG as yet does not prepare macro-fiscal framework. As an approximate guide to revenue forecasts, they use MOFED’s macro-fiscal framework. |
| 2 | Fiscal deficit, defined according to GFS or other internationally recognized standard | No | The ORG budget proclamation shows “residual surplus” or “retained earnings” as a revenue source, but, according to GFS, this should be shown as a ‘below-the-line’ financing item. |
| 3 | Deficit financing, describing anticipated composition | No | Accumulation of/use of retained earnings to fund surpluses/deficits not explicitly shown.. |
| 4 | Debt stock, including details at least for the beginning of the current year | Not applicable | ORG 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 (COA codes 4101, 4103 and 4105), and accounts receivables (COA codes 4200-4299). Though reported on in the trial balance sheets, they are not mentioned in the budget documentation. |

⁹ At first sight, it may seem inconsistent with GFS to show external loans as “above-the-line” rather than as financing items ‘below-the-line’, but the loans are the liability of the Federal Government, not the regional government; the funds are transferred to the regional governments.

| No. | Item | Available | Source |
|-----|--|-----------|---|
| 6 | Prior year's budget outturn, presented in the same format as the budget proposal | No | |
| 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 | Budget preparation process covers this issue but is not covered in the Budget Speech. |

| Score | Minimum Requirements | Justification |
|-------|---|--------------------------------|
| D | i) Recent budget documentation fulfils none of the eight applicable benchmarks. | Explanation is provided above. |

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Scores A, mainly on the basis of the observation that the budget documentation does in fact include information on the current year and previous year. The assessment team was not, however, able to verify this (as time was very limited).

3.3.3. 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 any significant expenditures on extra-budgetary activities 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.

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

It should be noted, in the context of the discussion below for both dimensions, that it is very difficult to dis-entangle extra-budgetary operations (EBOs) at regional bureau and woreda level. The budget proclamations show external assistance and loans for the consolidated regional government. The regional bureaus receive the support but some of this may transferred to woreda government level and spent at that level.

Extra-budgetary operations (EBOs, excluding those of government-owned commercial enterprises – only the Oromia Water Works Enterprise -- which fall outside the scope of this indicator) comprise:

- *The Roads Fund*: a donor-supported Federal Government Fund, from which funds are disbursed to Rural Roads Authorities in the regions for roads maintenance purposes. This is a “Channel 2” fund: Channel 2 funds represent external funds channeled from sector Ministries at federal government level (Ethiopian Roads Authority – public body code 273 - to Rural Roads Authorities at regional government level). It is an EBO, as its planned and actual incomes and expenditures are not included in the Federal government budget, nor in the ORG budget (except for the recurrent expenditures of the Roads Fund Office itself, as indicated under public body code 274).^{10 11}, and thus the Fund constitutes an EBO at both federal and regional government level. It also appears to be an unreported EBO at regional level; the ORG BOFED has no knowledge of the Fund’s planned and actual incomes and expenditures (in contrast to the situation in Amhara). At the federal level, it is not clear if the Roads Fund operations are reported on by region.
- *The Global Fund (GF)* for HIV, Malaria and Tuberculosis, also a donor-supported Federal Government programme under the Channel 2 aid disbursement modality (National HIV/AIDS Prevention and Control Secretariat – code 345 – disburses directly to health sector bureaus). The planned incomes and expenditures of the Fund are not included in either the Federal or the ORG budget and thus the Fund constitutes an EBO. It also appears to represent an unreported EBO. The ORG BOFED informed the assessment mission that it does not receive any reports from the health bureau on GF incomes and expenditures.
 - The magnitudes of annual funds disbursed and spent are large, according to various staff met by the team. The GF website (www.theglobalfund.org) confirms this: over about 5 years, \$811 million had been disbursed by the end of 2009 over a number of “rounds”; the total amount approved is \$1.3 billion. The reports on the website do not provide an annual breakdown of expenditure and do not indicate expenditure by region. As a very rough order of magnitude, assuming that Oromia would receive about a quarter of the funds (as it has one quarter of Ethiopia’s population), it might have received about \$40 million a year (= $800/5 * 0.25$) on average. Total region-wide ORG expenditure (i.e. consolidated regional bureau and woreda government expenditure; the GF funds are spent also at woreda government level) amounted to about \$250 million in 2008/09, indicating that they comprise about 16 percent of expenditure. If this is correct then dimension (i) would score D. By way of comparison, GF operations in Amhara Region amounted

¹⁰ “Channel 1” programmes, in contrast, represent channeling of external funds from MOFED to BOFED. They are reflected in the ORG bureau capital budget, actual expenditures are reported on under IBEX and therefore are not EBOs; the multilateral agencies are Channel 1 donors except for some EU programmes, such as its support for the Agriculture Support Project. Bilateral agencies providing Channel 1 support include DFID. Channel 1 funds also represent funds directly channeled to BOFEDs by donors, as is the case with UN ExCom funding (UNICEF, UNDP, UNFPA, WHO, though mainly UNICEF). Donor support is focused mainly on the Water Resources Bureau, Education Bureau, Health Bureau, with Sports and Youth Affairs Bureau and Youth and Social Affairs Agency receiving relatively small amounts.

¹¹ Channel 2 funds also comprise funds disbursed by donors directly to sector bureaus at regional level, but these are apparently insignificant in ORG.

to just over 10 percent of ARG expenditures in 2007/08; GF was the largest donor operating in Amhara.

- *Other Channel 2 donor-supported expenditure:* The budget proclamations include Channel 2-type expenditure, but it will not necessarily be reported on, and thus constitutes an unreported EBO. Projects falling under Channel 2 are not captured in the Chart of Accounts and therefore cannot be reflected in the expenditure reports generated through IBEX. The main example is the Agriculture Sector Support Project, which appears in the 2009/10 Budget Proclamation (EFY 2002) as a one line item mainly funded by donors, with no identification of the donors. Budget performance reports may understate actual performance, because it hasn't been recorded.

Other Federal Government-funded programmes and funds that are partly implemented at regional level include the Population Safety Net Programme (PSNP), the Food Security Programme, the Public Sector Capacity Building Programme and the Water, Sanitation and Hygiene Programme (WASH). The first three of these are part of the Federal Government budgets and are reported on according to those budgets. BOFED and the Agriculture and Rural Development Bureau are, in effect, acting as de-concentrated arms of the Federal Government. The WASH programme is included in the ORG budget, the donor support being provided through Channel 1.

Non-tax revenues: Unreported EBOs in some countries are reflected in the spending of Own Source Revenues (OSR) collected by government agencies that are not budgeted for and not reported on. This is not the case at either the Federal or regional levels of government in Ethiopia. With the exception of school and health care unit fees, which can be retained and spent (as long as the proposed spending is reflected in the approved budget), all own-source revenues must be surrendered to the ORG BOFED bank account; fifteen public bodies earn revenues. Revenues collected in excess of budgeted spending thereof must be surrendered to ORG's treasury account. A comprehensive receipting system (with receipts in triplicate at minimum – one copy for the client paying the revenue, one copy for the government agency, and one copy for the Treasury) helps guard against spending of NTR collected by a government agency that is not covered in the approved budget and against the non-submission to the Treasury of NTR collected in excess of the amount that can legally be spent.

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

This dimension refers only to donor-funded projects in the case where there is a direct agreement between the donor and ORG (i.e. the funds are not channeled through the federal government).¹² Channel One funds represent monies channeled by the donor agency directly through BOFED and the receipt and spending thereof are captured in the approved budget and budget execution reports (COA codes 2000-2999 under the External Assistance category). The UN EXCOM funds (mainly UNICEF) funds fall into this category.

Channel Two funds represent monies transferred by donors directly to sector bureaus, which are in charge of the financial management of the projects. The planned receipt and spending

¹² The budget tables disaggregate funding sources according to block grant from MOFED, own revenues, external assistance and external loans, both via the federal government and through direct assistance. In assessing PI-7 dimension (ii), only the direct assistance is considered; assistance via the Federal Government is assessed under PI-7 (i).

may or not be captured in the approved budget, but are likely not to be reported, therefore representing unreported EBOs; some JICA programmes (in the education sector) and Italian Government programmes (in agriculture) fall into this category.

Channel Three funds represent donor operations, including NGO operations, where the donor/NGO is implementing a project directly, with no funding passing through the relevant sector bureau. With regard to donor agencies, GTZ and USAID fall into this category, according to BOFED. Reports on income and spending may be sent to the sector bureau, but BOFED does not receive them. As BOFED is in charge of fiscal management, such operations constitute unreported EBOs.

The situation regarding NGOs appears to be better. Under NGO Co-ordination Guidelines administered by the NGO office at BOFED, NGOs are required to report regularly to sector bureaus and to BOFED on their operations; if they don't report, they may lose their license to operate as an NGO. Diligence in reporting is more likely in the cases where NGOs have been contracted by donors (particularly UNICEF or WHO) or by the health bureau itself. NGO operations are substantial in Oromia; BOFED estimates that current NGO projects total about ETB 1 billion covering 920 projects. The NGO Coordination Guidelines are currently being revised, according to the recommendations of the BPR exercise completed in 2008/09.

There does not seem to be any one source of information on donor operations in Oromia (under both dimensions above) and BOFED admits it is hard to track what is happening, particularly under Channel 2 and 3 funding modalities. The assessment team devised a format for reporting on donor-funded operations and submitted this to the regional bureaus, not for the purposes of the assessment (as the form might take a long time to complete), but as a format that the authorities might find helpful to use.

Any extra-budgetary operation has an opportunity cost, as scarce real resources, particularly human resources, are being used to provide public services, the budgeting for which has not been reflected in the budget submitted to the Regional Council. Ideally, the funding for all public services should fall under the scope of the ORG budget in order to increase the chances of a reasonably optimum use of such resources in providing the range of public services needed and required by society. Presumably donor agencies agree with this principle, and therefore should not be funding extra-budgetary operations, even more so, unreported extra-budgetary operations.

| Score | Minimum Requirements | Justification | Information Sources |
|------------|--|--|---|
| (M1 D+) | | | |
| D | i) <i>The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.</i> The level of unreported extra-budgetary operations (other than donor-funded projects) constitutes more than 10 percent of total expenditure. | The Health Bureau does not provide information to BOFED on Global Fund operations in Oromia, but the Global Fund website indicates funding in Ethiopia of over \$800 million over the last five years. Under the very rough assumption that this is spread over regions according to population size, ORG may be receiving about \$40 million a year, constituting about 16 percent of total expenditure. This would indicate a D rating. By way of comparison, GF operations in Amhara (as reported to BOFED) are just over 10 percent of expenditure. There may also be other unreported EBOs under Channel 2 funding. | --BOFED --Global Fund website. |
| B | (ii) <i>Income/expenditure information on donor-funded projects which is</i> | Loans are not relevant here as regional governments do not borrow. Direct funding by donors to BOFED (Channel 1) is provided by UN ExCOM agencies, | - BOFED ; - 2009/10 budget proclamation. |

| Score | Minimum Requirements | Justification | Information Sources |
|-------|--|---|---------------------|
| | <p><i>included in fiscal reports.</i></p> <p>(ii) Complete income/expenditure information is included in fiscal reports is included for all loan financed projects and at least 50 percent (by value) of grant financed projects</p> | <p>mainly UNICEF and WHO, amounting to ETB 47 million in the 2008/09 budget. Channel 2 and Channel 3 funding is not reported, but the Channel 1 funding is at least 50 percent of the total; the Channel 1 modality is increasingly being used by donors.</p> | |

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The assessment team was unable to score, due to insufficient information.

3.3.4. 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 sub-national governments; (ii) timeliness of reliable information to sub-national governments on their allocation; and (iii) extent of consolidation of fiscal data for general government according to sectoral strategies.

(i) Transparency and Objectivity in the horizontal allocation of transfers to woreda governments

The horizontal allocation of the block grant from the Federal Government to regional governments until 2008/09 was based on three criteria: (i) population, 65 percent weight; (ii) development status (25 percent); and (iii) revenue generating capacity (10 percent). The subsidies are mainly used to finance recurrent expenditure. With effect from the beginning of 2009/10, this formula is now being phased out over a period of four years (25:75 in first year to 100% in fourth year) in favour of a new formula that gives more explicit emphasis to the expenditure needs (numbering 14) per capita of each sector in order to more explicitly and accurately realize the fiscal equalization purpose of the fiscal transfer formula.

Regional Governments have flexibility in how they apply the federal government formula to the determination of subsidies to woreda governments. The ORG (as also Amhara Region) does not use the federal government formula for allocating subsidies to the 303 woreda and town governments in Oromia. In the interests of achieving more accurate equalization than under the Federal Government formula, it focuses, in the case of recurrent expenditure, on service beneficiaries rather than population (unit cost approach, where future recurrent budgets are estimated on the basis of maintaining current levels of services being delivered per service beneficiary), and, in the case of infrastructure, on estimated infrastructure deficits.¹³ It will commence using the new Federal Government formula in 2011/12 (EFY 2003).

The unit cost approach is used by ORG for five basic service sectors: education, health, agriculture, water and roads. In the case of education, for example, the first step is to estimate recurrent costs of providing services per beneficiary by dividing total recurrent costs in a particular service category (e.g. primary education) by the number of service beneficiaries (e.g. primary school students). The second step is then to project future recurrent costs

¹³ As the PBS 2 document points out, two regions may have the same population and, *ceteris paribus*, receive the same subsidy if the federal government formula is used, but this penalizes the region with more service beneficiaries.

according to the projections of numbers of beneficiaries. The third step is to estimate what unit costs should be in terms of minimum service standards/norms that were established in 2006/07 (at federal government level, with some flexibility permitted at regional government level) and a time path for reaching these standards; for example, the standard for student /teacher ratios may be 50:1 but some woredas may have much higher ratios, implying the need to hire more teachers, while recognizing this may take a few years.

The capital budget for each woreda is calculated on the basis of an estimated relative infrastructure deficit index (defined for each sector in terms of desired standards and the average infrastructure stock in other woredas).¹⁴ As capital expenditure has future recurrent cost implications, projections of the total woreda budget incorporate (approximately) a 75:25 split between recurrent and capital expenditure.

The subsidy is then determined as the difference between the estimated budgetary requirements and the revenue generating potential of each woreda; the ORG Revenue Bureau contributes to the estimation of this potential.

The processes for estimating recurrent and capital expenditure needs are described in ORG's "Woreda Block Grant Allocation" document (EFY 1998, 2005/06). While the principles are clear, the processes are not necessarily straightforward (for example, in estimating a time path for adjusting to minimum standards and norms), while the underlying data required to estimate unit costs, current and estimated numbers of service beneficiaries, and infrastructure needs are not necessarily accurate and up-to-date. The inevitable mathematical formulae required to estimate infrastructure deficit needs may not be easily digestible for woreda governments.

The estimation of the revenue generating potential of each woreda appears not to be transparently explained (at least not in the document referred to above). Good underlying data, forecasting and judgement are required to estimate potential accurately and objectively. As with the quality of data used to estimate expenditure needs, woreda governments tend to complain. Complaining about the formulae used to calculate horizontal allocation of grants to sub-national governments is not peculiar to Ethiopia (for example, the author of this report came across similar types of complaints in South Africa a few years ago). Some countries (e.g. South Africa, India) have established independent fiscal commissions (members of which include experts on the subject) to review transfer formulae every few years.

In addition to the block grant (consisting of the recurrent and capital subsidy), woredas in Oromia also receive specific purpose grants from other sources:

- The Local Investment Grant (LIG), established with donor support (principally World Bank) in 2008/09, this is channeled through and managed by WOFEDs, and appears explicitly in the monthly table prepared by the ORG BOFED showing subsidies to woredas. Its allocation between woredas is determined under the block grant formula. The LIG grant comprises about 4 percent of total grants (i.e. 4 percent of the sum of

¹⁴ For example, the education sector infrastructure deficit index is based on: (i) schools per 1000 school age population; (ii) Classrooms per 1000 school age population; (iii) student-classroom ratio; and (iv) unit costs of constructing classrooms and schools. Source: "Woreda Block Grant Allocation", EFY 1998 (2005/06), ORG BOFED.

the block grant and LIG). The criteria for use are laid out in the project agreement between the federal/regional government and the World Bank.¹⁵

- The Water, Sanitation and Hygiene (WaSH) programme (90 percent funded by donors), which is a federal government programme, the funds being channeled through BOFED; the criteria for use are laid out in project agreements.
- Other donor-funded grants from donors, the use of which are less transparent (not reported on) and are not channeled through BOFED; some of these grants are channeled through sector bureaus (e.g. Agriculture Bureau, for example the Agricultural Support Programme), others may be projects being directly implemented in woredas by donors and NGOs.

The block grant provided by BOFED to woredas is completely additional to the specific purpose grants (in marked contrast to, for example, SNNPR, where the BOFED practises 100 percent off-setting, that is the block grant is reduced 1 birr for each birr of donor assistance being provided). The inter-woreda equity argument in favour of offsetting is valid in principle, but in practice, its implementation can lead to problems, for example insufficient funds to pay woreda government salaries, as the specific purpose grants are mainly for projects, not recurrent expenditure. Thus, in a sense, offsetting results in lower predictability.

(ii) Timeliness of reliable information to woreda governments on their allocations

Most of the block grant to woreda governments from ORG is funded through the Federal Government block grant to ORG. However, ORG only knows for certain how much block grant it will receive from the Federal Government after the Parliament approves the draft Federal Government budget at the end of June (i.e. just before the end of the fiscal year). Prior to the beginning of ORG's budget preparation cycle in February, MOFED provides indications to the regional governments on the likely horizontal allocation of the block grant and, on this basis, regional governments can start preparing their annual work plans (PI-11) and can notify woreda governments in turn as to how much block grant funding they are likely to receive.

It is possible, according to BOFED, that the final allocation approved by the Parliament may differ from the initial indications provided by MOFED. In the same vein, the final horizontal allocation of the block grant for woredas approved by the Regional Council may be different from the initial indications provided by BOFED. According to BOFED staff, any adjustments WOFEDs need to make only takes two-three weeks, so that their draft budgets are usually ready for submission to woreda councils before the end of July, one month into the new fiscal year. Woreda budgets are usually proclaimed by September.¹⁶

(iii) Extent of consolidation of fiscal data

As explained in the text box below.

¹⁵ The LIG, which started in 2008/09 is funded mainly by the World Bank, and is currently in a piloting phase for 2 years. The grant is used to construct new/rehabilitate existing infrastructure. It is being distributed to regional governments by the Federal Government according to the block grant formula. Regional governments then distribute the grant to a sample of woreda governments up to 30 percent of each woreda's budget (much higher than capex shares in the past). Each woreda incorporates the LIG into its annual planning and budgeting cycle (information source includes the World Bank's PBS 2 project document, available on the Bank's website).

¹⁶ Woredas and regional governments are on the same fiscal calendar as for the federal government, even though a staggered calendar would at first sight seem more appropriate.

| Score | Minimum Requirements | Justification | Information Sources |
|--------------------|---|--|---|
| B + (M2) | | | |
| B | (i) The horizontal allocation of most transfers from regional governments to lower level governments (at least 50 percent of transfers) is determined by transparent and rules based systems. | The block grant from ORG to woreda governments in Oromia comprises the bulk of transfers to woredas and is determined in relation to a formula that is different from the formula used by the Federal Government: (i) use of the unit cost method in relation to determining the grant for recurrent expenditure; and (ii) use of the infrastructure deficit index method in relation to determining the grant for capital expenditure. Though the formula is rules-based, the method for deriving the formula is not fully transparent, and there are doubts as to the reliability of the underlying data. The doubts are reflected in complaints by woredas. | -- Meetings with Head of Finance and Property Administration Bureau and staff in the Fiscal Decentralisation office in BOFED. - Woreda Block Grant Allocation” document (2005) provided by Fiscal Decentralisation Office staff. -- World Bank document on second Protection of Basic Services (PBS) project (April 2009, on World Bank website). |
| B | (ii) Woreda governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible. | The rating cannot be A, as the block grant allocation from the Federal Government to the regional government is not known with certainty until Parliament approves the Federal government budget at the end of June. There is still time for woreda governments to adjust their initial budget proposals. | -- As above for first two bullet points. |
| A | (iii) Fiscal information (ex ante and ex-post) that is consistent with regional government fiscal reporting is collected for at least 90% of woreda government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year. | The budget preparation and reporting systems are the same at woreda level and regional level and (as noted under PI-5) is based on sectoral/functional categories. BOFED produces a consolidated regional/woreda government report on the estimated (unaudited) budget outturn within 10 months of the end of the fiscal year. The manual nature of PFM systems at woreda level holds up the preparation of reports. | -- The budget classification system. -- Consolidated end-year budget performance tables prepared by BOFED. |

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The assessment notes “There is uniform unhappiness in the seven regions and weredas visited about the transparency of the transfer formula and the underlying time series data variables utilized”. It awards a B rating for dimension (i), the same as above, indicating the situation has not changed. Dimensions (ii) and (iii) are rated B and A, the same as above.

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

This indicator assesses the extent to which the central government monitors the fiscal position of autonomous government agencies (AGA) public entities (PE) and sub-national governments.

(i) *Extent of regional government monitoring of financial position of public enterprises*

ORG owns only one public enterprise: Waterworks Enterprise. This does not receive subsidies, although ORG can provide it with temporary funding in the event of temporary cash shortages. Waterworks Enterprise submits financial reports and audited annual accounts to its parent bureau (Water Resource Development) and to BOFED.¹⁷

¹⁷ Oromia Radio and TV is a public body, not a public enterprise, and its budget is part of ORG’s approved budget.

The MOFED guarantees loans contracted by cooperative unions from Commercial Bank of Ethiopia (CBE) for the purpose of purchasing agricultural inputs for farmers for use during the pre-harvesting season; the farmers are supposed to repay the unions from their harvest proceeds. If they run into difficulties in servicing the loans, the guarantee may be called. MOFED then deducts the debt service payments it then makes to CBE on behalf of the farmers from the block grant it provides to BOFED. This situation therefore poses an element of fiscal risk to BOFED. The Agriculture and Rural Development Bureau monitors the situation, however, thus lowering the element of surprise.¹⁸

(ii) Extent of monitoring of the fiscal position of sub-national governments

Woreda governments are not allowed to borrow. Financial Regulations prohibit over committing of expenditure (in terms of the approved or adjusted budget) and are enforced, thus payments arrears through over-commitment are not possible. Woredas do not have their own revenues and rely for their financing on the block grant and other transfers from the regional government and donors (PI-8).¹⁹ The block grant is very predictable, so it is unlikely that woreda governments would face resource shortfalls. The main risk of a resource shortfall arises from delayed or non-arrival of budgeted external assistance. The risk is much greater in regions which practise off-setting arrangements, as noted in PI-8, but this is not the case with ORG. In the event of unexpected resource shortfalls, the contingency item (public body code 462) in the ORG budget (ETB 144 million in 2008/09, representing 9.7 percent of the regional bureau budget) can be used to help finance woreda government resource shortfalls.

The zonal administrations, which fall under the regional bureaus, monitor the financial situation of the woreda governments within the zone – through the reports that woredas are required to submit every month. The Single Pool system, under which WOFEDs are effectively in charge of the PFM systems of the woreda sector bureaus (for example, for procurement and payments) also facilitates such monitoring.

| Score | Minimum Requirements | Justification | Information Sources |
|---------------|--|---|--|
| A (M1) | | | |
| A | (i) All major AGAs/PEs submit fiscal reports to regional governments at least six monthly , as well as annual audited accounts, and the regional government consolidates fiscal risk issues into a report at least annually. . | ORG owns only one enterprise –Waterworks Enterprise – , which submits periodic financial performance reports and annual audited accounts to its parent ministry and to BOFED. Keeping track of its fiscal position is straight forward. Pre-harvest loans provided by CBE to farmers' cooperative unions and guaranteed by MOFED pose fiscal risk for ORG, but Agriculture and Resource Development Bureau monitors the situation. | -- Information provided by BOFED Financial Administration and Property Department staff. |
| A | (ii) The net fiscal position of woreda governments is monitored at least annually for all governments and the regional government consolidates overall fiscal risk into annual reports. | Woreda governments are not permitted to borrow or enter into spending commitments that are not covered by the approved budget. As their resources derive mainly from the block grant, the delivery of which is predictable, the main risk of a shortfall comes from delays in receiving budgeted external assistance. ORG does not practise offsetting arrangements, so delays mainly result in delays in project implementation, rather than shortfalls of resources for recurrent expenditure. ORG's contingency fund can be used to offset woreda resource shortfalls. Through the financial reporting system – facilitated by the | Ditto |

¹⁸ In a news article (WIC) dated 1 April, 2010, the Agriculture and Rural Development Bureau announced that CBE would lend ETB 1.6 billion from CBE to cooperative unions for the purchase of agricultural inputs, with MOFED guaranteeing the loan.

¹⁹ In practice, in the interests of efficiency, woreda revenue offices are allowed to retain some of the revenue they collect on behalf of the regional revenue bureau, the amount being deducted from the block grant.

| Score | Minimum Requirements | Justification | Information Sources |
|-------|----------------------|--|---------------------|
| | | Single Pool System -- zonal administrations are able to keep track of the financial position of woredas, though this may not be formalized into a consolidated overall fiscal risk report. | |

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This indicator was not rated, as it was incorrectly deemed to be not applicable.

3.3.6. PI-10: Public access to key fiscal information

Transparency will depend on whether information on fiscal plans, position and performance of the government is easily accessible to the general public or at least interested groups.

Public access to key fiscal information is still limited at regional bureau level, though at woreda level it is improving markedly under the Financial Transparency and Accountability Programme (FTAP) under the PBS programme. Under FTAP, progress is evidenced in the following areas: (i) posting of budgets and budget performance in simplified form on noticeboards outside WOFEDs (in formats designed under the PBS programme); (ii) posting of service delivery information outside education, health and agricultural extension service delivery units (in formats designed under PBS); and (iii) design of brochures on woreda budgets for the layman. The media (local radios, newspapers, magazines) are disseminating information on budgets and budget performance, while communities are playing a more active voice. Table 5 summarises.

Table 5: PI-10: 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> The budget documentation is not available until the budget has been approved by the Regional Council (at which point it is published, through the Budget Proclamation). 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 monthly budget execution reports, both at regional bureau and woreda level, but does not publish them, either in hard copy or through its website (www.oriabofed.gov.et). Though beyond the scope of this study, WOFEDs are now pinning simplified budget performance reports on notice boards (one of the products of the FTAP under the PBS project). |
| 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> Publication is permitted under the law, but ORAG has yet to publish any of its audit reports, mainly due to resource constraints. |
| Contract awards with value above US\$ 100,000 approx. are published at least quarterly. | <i>Not met:</i> 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 centres. The project is in the process of being rolled out to all woredas. The mass media and community organizations are increasingly disseminating information. |

| Score | Minimum Requirements | Justification |
|-------|----------------------|---------------|
|-------|----------------------|---------------|

| | | |
|---|--|---------------------|
| C | (i) The government makes available to the public 1-2 of the 6 listed types of information. | As described above. |
|---|--|---------------------|

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Score of C, based on the second and sixth benchmarks being met. The second benchmark is justified on the basis of submission of reports to the regional council. However, this only partially represents public access, and in any case, whether the one month benchmark is met is not mentioned. The evidence of the sixth benchmark being met is not provided, though it seems unlikely as the FTAP project (service delivery template preparation) had not yet started. The score should be D, indicating that some progress has been made.

3.4. Policy based budgeting

The indicators in this group assess to what extent the central budget is prepared with due regard to government policy. The table below summarises the assessment.

| No. | C (i) Policy –based budgeting | Score | Dimensions | Scoring Methodology |
|-------|---|-------|---------------------------------------|---------------------|
| PI-11 | Orderliness and participation in the annual budget Process | B+A | (i) A (ii) A (iii) C | M2 |
| PI-12 | Multiyear perspective in fiscal planning, expenditure policy and budgeting. | D+ | (i) D (ii) NA (iii) C (iv) C | M2 |

3.4.1 PI-11: Orderliness and participation in the annual budget process

This indicator reflects the organization, clarity and comprehensiveness of the annual budget process. Dimensions to be assessed are: (i) existence and adherence to a fixed budget calendar; (ii) clarity/comprehensiveness of and political involvement in the guidance on the preparation of 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

Regions follow the Federal Government guidelines with regard to budget preparation, as described in the Federal Government’s Budget Manual (January 2007). The Financial Calendar is outlined on pages 38-39 of the manual. The calendar is generally adhered to. The calendar allows six weeks for the submission of “Budget Requests” after the issue of the Budget Call (end-January, as indicated in the Calendar). Over 90 percent of bureaus submit their requests on time. Prior to the issue of the Budget Call, bureaus prepare Annual Work Plans, which facilitate the preparation of the Budget Requests. Following evaluation by BOFED of these requests during March-April, budget ceilings are sent out in mid-May to bureaus, which then have three weeks to prepare detailed estimates to fit within these ceilings and submit to BOFED; much of the estimation work has already been conducted during the initial phase of budget preparation.

Section 6.5 of the Federal Budget Manual indicates the small differences between the Federal, Regional and Woreda budget calendars.

(ii) Guidance on the preparation of budget submissions

The Federal Budget Manual includes “Guidelines for Public Bodies Preparing Budget Requests” (pages 52-58). The main difference between the guidance on preparation of Budget Requests at federal level and the guidance at regional level is that the ceilings for each bureau cannot be finalized prior to the issue of the Budget Call (sent out by BOFED to bureaus in February), as the amount of the federal block grant is not known with certainty. Instead, bureaus are required to prepare their budget requests by filling out standard format budget preparation forms (Annex H of the Federal Budget Manual). The forms provide for the detailed estimation of recurrent and capital expenditures for the coming year on the basis of the expected outturn for the current year; in other words, on the basis of the existing levels of services (with adjustments for any efficiency-enhancing cost savings that may have been identified). They also provide for prioritized and well-justified proposals for new capital projects.

At a later stage, after the submission of Budget Requests to BOFED and subsequent discussion of these, the Regional Cabinet may prioritise (partly based on the proposals in the budget requests for new capital projects) the allocation to bureaus of any extra fiscal resources (‘fiscal space’) that may be available (including from the federal block grant). Following this, BOFED sends out letters to each bureau, indicating its spending ceiling, which cannot be exceeded in the subsequent preparation of detailed budget estimates (which, after submission to BOFED, permit the preparation of the draft budget proclamation to be submitted to the Regional Council).

(iii) Timely Budget Approval by the Legislature

The Regional Council approved the draft budget proclamations for 2006/07, 2007/08, 2008/09 and 2009/10 (EFYs 1999-2002) on July 11, July 27, July 18 and July 15 respectively. These are all after the end of the financial year (July 8). But this reflects the fact that the financial calendars of the federal and regional governments are the same. Thus, as the federal government budget proclamation is not approved until the end of the financial year, the regional governments need time to adjust their budgets if the block grant allocation is different from the figure indicated earlier.²⁰

Impact Assessment Study of Expenditure Management and Control Program (EMCP)

The budget manual and training module were developed and distributed. The new Chart of Accounts came into use in 2003, and no problems were reported in using it. With the merger of the finance and planning bureaus, recurrent and capital budgets have been prepared together. Most bureaus use the cost centre concept in the budget formulation process. Adherence to the budget calendar has been very good. Understanding of the budget reforms was assessed as being very good. Most sector bureaus are not using IBEX yet. High staff turnover is a problem.

| Score | Minimum Requirements | Justification | Information Sources |
|--------------------------|--|---|---|
| B+ (M2) | | | |
| A | <p>(i) <i>Existence of and adherence to a fixed budget calendar</i> A clear annual budget calendar exists, is generally adhered to and allows regional bureaus enough time (and at least 6 weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.</p> | <p>The annual budget calendar is clearly laid out in the Federal Budget Manual. Preparation of initial budget estimates begins end-January following Budget Call issuance and these have to be submitted by mid-March. Following evaluation by BOFED of these requests during March-April, budget ceilings are sent out in mid-May to bureaus, which then have three weeks to prepare detailed estimates to fit within these ceilings and submit to BOFED; much of the estimation work has already been conducted during the initial phase of budget preparation.</p> | <p>- Federal Budget Manual, January, 2007.-- Head, Financial Administration and Property Department, BOFED -- Head, Financial Administration Property Department, Education Bureau.</p> |
| A | <p>(ii) <i>Guidance on the preparation of budget submissions</i> A comprehensive and clear budget circular is issued to regional bureaus, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to the bureaus.</p> | <p>The Budget Call requires preparation of Budget Requests using standard formats, mainly on the basis of the estimated outturn for the current fiscal year, forecasts of spending next year under existing service levels, ongoing and committed capital projects and prioritized and well-justified proposals for new capital projects. Following discussion with BOFED and then within Cabinet, ceilings are sent to each bureau to guide the preparation of detailed estimates, which form the basis of the drafting of the budget proclamation.</p> | <p>- Ditto.</p> |
| C | <p>(iii) <i>Timely budget approval by the legislature</i> The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year. budget before the start of the fiscal year.</p> | <p>This is required by the Federal Financial Administration Law (both the 2003 law and the new 2009 law). In practice, due to the notification of the federal budget subsidy only at the end of the fiscal year, budget approval takes place 1-3 weeks after the end of the fiscal year. But this happens only because the financial years are the same for the federal and regional governments, thus approval by the Regional Council after the end of the financial year is not the fault of BOFED or the Council.</p> | <p>-- Budget proclamations for 2006/07-2009/10. -- Head, Financial Administration and Property Department, BOFED.</p> |

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An A rating is provided for ORG, but this seems incorrect.

3.4.2. Multi-year perspective in fiscal planning, expenditure policy and budgeting

This indicator looks at the link between budgeting and policy priorities from the medium term perspective and the extent to which costing of the implications of policy initiatives are integrated into the budget formulation process. In particular, it assesses the following: (i) multi-year fiscal forecast and function allocations; (ii) scope and frequency of debt sustainability analysis; (iii) existence of costed sector strategies; and (iv) linkages between investment budgets and forward expenditure estimates.

(i) Multi-year fiscal forecasts and functional allocations

The Federal Budget Manual indicates (under Section 6, Budget Calendar) that regional governments, as with the Federal Government, should prepare a medium term Macro Economic and Fiscal Framework (MEFF). ORG does not do this yet, and uses the Federal Government's macro-fiscal framework and the Central Statistics Office's (CSO) projections

of regional real GDP growth (which guides revenue forecasts); CSO is a federal government agency.

ORG used to prepare Public Investment Plans (PIPs) with a medium term horizon, based on the Plan for Accelerated and Sustained Development to End Policy (PASDEP), 2005/06-2009/10. The PIPs did not take into account the future recurrent costs associated with planned investments and they have been discontinued. The Federal Government is currently preparing for the introduction of programme budgeting, which has a medium term focus and links recurrent and capital expenditure.

(ii) *Scope and frequency of debt sustainability analysis (DSA)*

This dimension is not applicable, as Oromia Region does not borrow and has no debt obligations.

(iii) *Existence of costed sector strategies*

Sector strategies are prepared at federal government level for the whole country and then adapted to regional level. Region-wide education spending comprises about 40 percent of total spending (most education spending is at woreda level, not bureau level, so it is appropriate to rate this dimension for the region as a whole). The Education bureau informed the assessment team of its Education Sector Strategic Plan (EDSP) covering 2006-2010. The website reference that the team was referred to didn't work, so the team looked at the federal government EDSP, from which the regional EDSPs are derived.

The EDSP is costed, for both recurrent and capital expenditure. Under a federal government commitment (as stated in the report), education spending is projected to increase marginally as a percentage of GDP. This leaves a financing gap of about 23 percent (i.e. the projected cost of EDSP minus the projected allocations) to be filled by donor agencies. Though not huge, this is a significant financing gap and indicates an inconsistency between the projected costs and the amounts of likely funding. Even if the gap could be filled (taking into account the funding requirements of other sectors), there might still be an inconsistency with the overall spending ceiling, derived from the macro-fiscal framework, and which is not solely defined by the amount of resources available.

The assessment team was not able to meet with the Health Bureau and was unable to obtain a copy of the regional health sector development plan. However, it was able to find the Federal Government's Health Sector Strategic Plan on the internet. As with the education sector, this covers the whole of the country for 2005/06-2009/10 (a new one is being prepared). This is fully costed, with costs far exceeding the resources likely to be available, even in the most conservative scenario (public spending on health would nearly double over the 5 year period).

(iv) *Linkages between investment budgets and forward expenditure estimates*

Investment decisions tend to be closely related to sector strategies, the costs of which include the recurrent cost implications of investments. The EDSP does not explicitly link investment budgets and associated future recurrent costs. The linkage is implicit, however, as the number of classrooms and schools to be constructed ultimately depends on projections of student enrollments and the recurrent expenditures that these generate.

The Guidelines for Preparing the Capital Budget (contained in the Federal Budget Manual) stipulate that a public body should assess the recurrent budget implications of new capital projects before it includes them in its Budget Request; the ORG manual on block grants to woredas (“Woreda block grant allocations”, 2005, as discussed under PI-8) elaborates on this point. Forward spending estimates are, however, not formally prepared by regional governments. Although medium term recurrent cost implications may be included in Budget Requests, these do not have any formal bearing on the preparation of future budgets.

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|--|---|---|
| D+ (M2) | | | |
| D | (i) <i>Multi-year fiscal forecasts and functional allocations</i> No forward estimates of fiscal aggregates are undertaken. | Unlike at the Federal Government level, there is no formal medium term Macro-Economic and Fiscal Framework in place. | -- Deputy Head, BOFED. |
| NA | (ii) <i>Scope and frequency of debt sustainability analysis</i> | The Regional Government does not borrow and has no debt liabilities. | -- BOFED |
| C | (iii) <i>Existence of costed sector strategies</i> Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure, OR costed strategies cover more sectors but are inconsistent with broad fiscal forecasts. | The assessment team was informed that regional sector strategies are adapted from the federal government’s strategies. The team was unable to obtain copies of the regional sector strategies, so it reviewed the federal government’s education and health strategies. These are fully costed, but imply large increases in spending that are very unlikely to be feasible within the context of financial resources likely to be available and the overall spending ceiling derived from the macro-fiscal framework. Education and health sector spending comprise about 23 percent and 6 percent respectively of of total consolidated ONRS expenditure. | -- Planning and Budgeting Department, Education Bureau. -- Oromia Education Sector Development, 2005/06-2009/10. |
| C | (iv) <i>Linkages between investment budgets and forward expenditure estimates</i> Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases. | Investment decisions are closely related to sector strategies, the costs of which include the recurrent cost implications of investments (at least in the case of education). .Budget Requests for new capital projects should (according to the Guidelines in the Federal Budget Manual) contain estimates of the future recurrent costs associated with such projects. BOFED emphasizes the need to prepare such estimates. But forward budget estimates are not currently prepared in Oromia. A rating of D would be too low, as budgeting for recurrent and capital expenditure are not separate processes. A B rating would be too high, this assumes forward budget estimates are prepared.. | -- Federal Government Budget Manual. -- “Woreda Block Grant Allocation” document (BOFED, 2005); -- BOFED. |

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The ratings were C, D and C and overall D+ for dimensions (i), (iii) and (iv). The rating for dimension (i) appears to be too high, and the rating for dimension (iii) too low.

3.5. Predictability and control in budget execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls and measures in place to ensure that the budget is executed in an accountable manner.

| No. | C (ii) Predictability, Control and Budget Execution | Score | Dimensions | Scoring Methodology |
|-------|---|-------|--------------------------------------|---------------------|
| PI-13 | Transparency of tax payer obligations and liabilities | A | (i) A (ii) B▲ (iii) A | M2 |
| PI-14 | Effectiveness of measures for taxpayers registration and tax assessment. | B▲ | (i) B (ii) B▲ (iii) C▲ | M2 |
| PI-15 | Effectiveness in collection of tax payments | C++ | (i) A (ii) C (iii) B | M1 |
| PI-16 | Predictability in the availability of funds for the commitment of expenditures. | C + | (i) B (ii) A (iii) C | M1 |
| PI-17 | Recording and management of cash balances, debt and guarantees. | B | (i) NA (ii) B (iii) NA | M2 |
| PI-18 | Effectiveness of payroll controls | B+ | (i) B (ii) A (iii) A (iv) B | M1 |
| PI-19 | Competition, value for money and controls in procurement | C | (i) D (ii) C (iii) B | M2 |
| PI-20 | Effectiveness of internal controls for non- salary expenditure | B | (i) B (ii) B (iii) B | M1 |
| PI-21 | Effectiveness of internal audit | C+ | (i) C (ii) A (iii) C | M1 |

3.5.1. PI-13: Transparency of taxpayer obligations and liabilities

This indicator assesses the transparency of tax administration by reviewing:

- (i) Clarity and comprehensiveness of tax liabilities
- (ii) Taxpayer access to information on tax liabilities and administrative procedures, and
- (iii) Existence and functioning of a tax appeals mechanism.

Background

Taxes comprise:

- Personal income tax, which accrues 100 percent to ORG; mainly applies to civil servants and employees of public enterprises and big companies.
- Agricultural Income Tax and Land Use fees: Collected by woredas on behalf of ORG. Woredas retain these in the interest of efficiency and the block grant transfer from BOFED is reduced commensurately.
- Business and Income tax, shared 50:50 between ORG and the Federal Government;
- Value-Added Tax (VAT); 100 percent of the revenue collected by the Revenue Bureau (RB) is handed over to the Federal Government.
- Indirect taxes: include excise and sales taxes on locally made goods and services, and turnover tax: 70 percent of excise taxes goes to ORG, 30 percent to the

federal government. Turnover tax (applicable to enterprises with annual sales lower than the VAT threshold of ETB 500,000) accrues 100 percent to ORG.

- Non-tax revenues, e.g. royalties, casino license fees, rental income, rural land use fees, stamp duty, accruing 100 percent to ORG.

There are no revenue sharing arrangements between ORG and woreda governments, which do not have their own revenue sources.

Tax system developments in recent years include:

- The establishment in 2007 of the Standard Integrated Tax Administration System (SIGTAS), following in the footsteps of the Federal Government;²¹ it is gradually being rolled out to the zones (as of August, 2010, it is operational in the Revenue Bureau itself, 12 of the 17 zonal administrations and 7 out of the 39 city administrations). At present; it only covers VAT, but it is planned to extend the coverage to other taxes in the near future.
- Introduction of Value-Added Tax (2002);
- Introduction of the single Tax Identification Number (TIN);discussed under PI-14;
- Strengthening of Compliance Handling Teams as a result of the BPR (discussed under PI-14)
- Strengthening of the tax audit system (PI-14);
- The introduction (in 2008) of biometric finger printing and the electronic linking of sales register machines cash registers with the Revenue Bureau in support of greater compliance with tax registration and declaration requirements.
- Business Process Re-engineering (BPR): The purpose is to strengthen the efficiency of the revenue bureau through streamlining processes. The review started during 2006/07 and implementation of the streamlining exercise started the following year and is still continuing. A performance measurement system is to be introduced.
- Write-off by the Federal Government in 2004 of all sub-national government tax debts, as part of the tax reform programme (as mentioned in the 2007 Regional PEFA Assessment).

The combination of the developments listed above helped to increase ONRS tax revenue sharply to ETB 1.1 billion from ETB 662 million in 1999.

(i) *Clarity and Comprehensiveness of tax liabilities*

The taxes listed above are all covered by tax proclamations, each tax has its own proclamation. The proclamations mainly came into effect during 2002/03. Their preparation was supported by financing under the Tax Reform component of the Public Sector Capacity Building Programme (PSCAP), with assistance from donors. In the interests of harmonization and ensuing efficiency gains, the tax laws are very similar between regions and are based on

²¹ SIGTAS, developed in Canada, is used in a number of countries; for example in the Caribbean with financing from CIDA.

the Federal Tax Proclamation (the federal tax proclamations are posted on the Ethiopian Customs and Revenue Agency website (www.erca.gov.et)).

As would be expected, the legislation is reasonably comprehensive and clear, with limited and clearly stated discretionary powers. In the Income Tax Proclamation, the only discretionary powers relate to the waiving of tax liabilities in cases of grave unavoidable hardships (higher level approvals are required above stipulated thresholds, for example, approval of the Regional Cabinet is required for waivers of tax liabilities greater than ETB 100,000. Similar discretionary power is provided to the Head of BOFED in the case of the turnover tax (section 39) and to the regional government in the case of the land use fee and agricultural income tax (e.g. because of drought). Presumptive taxation (businesses with less than EB 100,000 turnover a year) implies discretionary powers by definition (as, in the absence of books of account, the Revenue Authority has to make an estimate of turnover and reach agreement with the business on this).

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

Explanatory brochures are available to businesses and the general public. The Oromia Revenue Bureau (ORB) also runs TV programmes every Saturday for 20 minutes, conducts tax education classes at schools and tax payer training programmes for the public in general. The training is organized by Bureau of Capacity Building in each woreda and is funded by the World Bank. Twenty thousand taxpayers have been trained a year over the last 2 years. The training is oriented towards Category C tax payers, particularly small businesses with an annual turnover of less than ETB 100,000 a year; the majority of tax payers fall within this category. Those paying personal income tax under Pay-As-You-Go schemes do not require much training. The ORB is developing its own website.

A Compliance Handling Team answers queries from the public; it can usually respond within 2 days. The Ethiopian Revenue and Customs Authority has posted explanatory notes on its website (www.erca.gov.et) about the use of cash register machines and their electronic connectivity with the Revenue Bureau.

(iii) *Existence and functioning of tax appeals mechanism*

The tax proclamations provide for a tax appeals mechanism for the four major taxes, the mechanism being the same for each type of tax (thus, the mechanism is described in detail in the Income Tax Proclamation and summarized in the other tax proclamations) Tax appeals processes have three components:

- *Compliance Handling Team (CHT):* Appeals/complaints over tax matters are submitted for review by the members of the CHT. The CHT examines tax payer queries over their tax assessments and, where appropriate, recommends waivers of assessed tax liabilities and any associated penalties and interest. Prior to the BPR, the CHT did not have the right to revise assessments, but now it has the right. Also as a result of the BPR, it is addressing each query within 2 days.
- *Tax Appeals Commission:* If a tax payer is not satisfied with how CHT has addressed its complaint, he/she can go to the Tax Appeals Commission. This is an independent entity; members comprise representatives from the Revenue, Finance and Economy and Legal Services bureaus, and a representative of the taxpayer

(typically, the head of the Chamber of Commerce). The BPR resulted in a streamlining of the Commission’s procedures in 2007/08. The complainant must first pay 50 percent of the assessed tax that is due. 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 CHT concerning the tax assessment; and (ii) deposit of 50 percent of the disputed amount with ORB. 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.

- *High Court:* A taxpayer dissatisfied with the decision of the Tax Appeals Commission may appeal to the High Court within 30 days of the decision on the grounds that the decision is erroneous in terms of the law. First, he/she must deposit 100 percent of the assessed tax liability.

In practice, 99 percent of complaints are resolved at the CHT stage. The number of complaints each year has decreased to only 40-50 complaints a year, partly due to the extensive tax payer education campaign.

| Score | Minimum Requirements | Justification | Information Sources |
|---------------|---|---|---|
| A (M2) | As listed in PEFA Framework | | |
| A | <i>(i) Clarity and Comprehensiveness of tax liabilities</i> Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited powers for the government entities involved. | The assessment team reviewed the proclamations for the main taxes (listed above), including the sections concerning the powers of the authorities to exercise discretionary powers, and determined that an A rating was appropriate. | -- Tax proclamations listed above. -- Meeting with staff of ORB |
| B ▲ | <i>(i) Taxpayers’ access to information on tax liabilities and administrative procedures</i> Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. | The ORB has prepared a number of explanatory brochures, uses the mass media to educate tax payers, and conducts tax payer education programmes, including in schools. This is still work in progress, and a B rating is warranted, rather than an A at this time. The Bureau is developing its own web-site; once functional this will further improve tax-payer access to information. An upward arrow is assigned, indicating progress being made. | -- Meeting with staff of Revenue Bureau, during which brochures were shown to the assessment team. Comments on draft report provided by ORB at Sept. 16-17 workshop. |
| A | <i>(iii) Existence & functioning of a tax appeals mechanism</i> A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon. | A tax appeals system is in place, provided for under the Tax Proclamation Laws, and includes the independent Tax Appeals Commission, members of which include people from outside the Government. The activities of the Commission are reported on by the Chairman. | -- Tax proclamation laws -- Meeting with ORB staff. Comments provided by ORB staff at the September 16-17 workshop. |

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ORG was rated A, C and B (overall B). Progress since then in tax payer education appears to warrant the B+ rating in this assessment.

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

Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers. Effectiveness is determined by reviewing: (i) controls in the taxpayer 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) Controls in the taxpayer registration system

According to Article 44 of the Income Tax Proclamation (No. 74, 2002), all people with potential tax obligations are required to obtain a tax identification number (TIN). The issue confronting the Revenue Bureau is to ensure that everyone (people and businesses) who should have a TIN does have a TIN. The controls are:

- The requirement, as stipulated in Article 46 of the Income Tax Proclamation, to have a TIN in order to obtain a business licence;
- The requirement that people/businesses opening bank accounts should have TINs.
- The requirement that businesses registering for VAT have TINs (this applies to businesses with an annual turnover of at least ETB 500,000). This enables ORB to check if businesses are compliant with the Excise Tax Proclamation (2002) and if employees of the business have TINs.
- The use of Tax Inspectors (often in plain clothes) to check that businesses have TINs, particularly businesses with turnover lower than the VAT threshold and who are therefore liable for turnover tax.
- The requirement (as from 2008) that all taxpayers (current and potential – students for example) should have biometric fingerprints²²; currently there are about 130,000 taxpayers with TINs, the potential number is half a million.
- The requirement (under Federal Government regulations) that all businesses (including very small ones) must have Sales Register machines and that these machines (and the terminals that link them to the Revenue Bureau) are accredited (according to the accreditation requirements listed in Federal Government Directive 46, August 2007). The Accreditation Board includes the ORB and Addis Ababa Administration Revenue Agency. All receipts generated by these machines must state the TIN of the business (as noted by the assessment team members in relation to their

²² Training in this technology was provided through CIDA.

hotel and restaurant receipts). This requirement helps the Revenue Bureau to check that businesses falling below the VAT threshold have TINs.

- Checks with Ethiopian Revenue and Customs Agency and business registries in other regions are also control points.

In terms of Category C taxpayers (those with no books of accounts and turnover less than ETB 100,000 a year, and who are therefore liable to presumptive turnover tax), who comprise 90 percent of taxpayers, the culture of tax compliance (including the requirement to obtain a TIN) has strengthened considerably in recent years as a result of the taxpayer education campaign (PI-13), a strengthened partnership between government and business (e.g. through the Tax Appeals Commission (PI-13) and a “door-to-door” approach.

The ORB informed the assessment team that the system is not yet watertight in the sense that it is not yet certain that all those who should have TINs do have TINs. Further linkages to other registration systems are being sought.

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

Penalties for non-compliance are set out in the tax proclamations and appear to be high enough to have potential significant impact. Section VII of the Income Tax Law provides for seizure of property in the event of default, Section VIII provides for administrative penalties²³. Section IX provides for criminal penalties; the Revenue Bureau has its own prosecution department.²⁴ The turnover, VAT and Excise tax proclamations have penalties of similar scale and also interest charges on late payments. The penalty for late payment under the Agriculture Income Tax proclamation is 2 percent of the amount of tax due for each month the payment is in default and criminal penalties are according to the penal code.

For newly registered taxpayers who fail to declare or who file late, ORB recently adopted a policy, whereby the penalty is 10 percent of the penalty laid out in the Tax Code, as an inducement to pay the penalty and to fully comply with declaration requirements in the future; failure to comply thereafter would result in the full penalty being applied.

The SIGTAS has made/is making it easier to monitor compliance; for example, it picks up failure to file a declaration or to file it on time.

The consistency of administration is not so easy to judge. Capacity constraints and the possibility of less-than-arms-length relations between taxpayers and government imply the possibility of inconsistent administration.

(iii) Planning and monitoring of tax audit programs

²³ (i) *Penalties for late filing or non-filing of tax declarations*: ETB 1000 for first 30 days, ETB 2000 for next 30 days, ETB 1500 for each 30 days thereafter; (ii) *Penalties for understatement of tax in tax declaration*: 10 percent of understated amount, or 50 percent if the understatement exceeds 25 percent of the tax required to be declared or exceeds ETB 20,000, whichever is smaller; (iii) *Penalty for late payment*: 5 percent of unpaid tax on the first day after the due date; an additional 2 percent for each following month; (iv) *Penalty for failure to keep proper records*: 20 percent of tax assessed and loss of business license if the failure continues for two years; (v) *Penalty for failure to withhold tax*: .ETB 1000 on manager/senior accountant for each instance of failure; (vi) *Failure to meet TIN requirements*: a withholding agent who makes a payment to a person who has not supplied a TIN is required to withhold 30 percent of the payment and the person to pay a fine of ETB 5,000. . .

²⁴ (i) *TIN violation*: If a person has more than one TIN, he/she is required to pay a fine of ETB 20,000-ETB 50,000 and to imprisonment of years for each extra TIN; (ii) *Tax evasion*: At least 5 years in prison; (iii) *False or misleading statements*: Fines ranging between ETB 1000-200,000 and/or imprisonment of 1-15 years, depending on the extent of underpayment and the extent that the falseness is deliberate; (iv) *Obstruction of tax administration*, offences by tax authority employee, unauthorized tax collection: fines of at least ETB 10,000 and 2 years imprisonment; and (v) *Failure to keep receipts generated by sales register machines*, 2 years imprisonment.

Following the BPR exercise referred to under PI-13, the tax audit system has been strengthened through the adoption in 2009 of a risk-based audit approach. First, tax payers are grouped into numerical risk categories: high risk (3), medium risk (2), low risk (1) and no risk (0). Risk is defined according to various numerically ranked criteria. The maximum number of risk points is 30. Taxpayers with more than 15 points are the subject of comprehensive audits every year. Those with 2-15 points (low and medium risk) are subject to sample audits. Taxpayers considered to be high risk include coffee suppliers, big hotels (the tax system covering foreign-owned hotels tends to be complex) and contractors.²⁵ The types of tax where risk tends to be higher are the profits tax, personal income tax and VAT.

| Score | Minimum Requirements | Justification | Information Sources |
|-----------------|--|---|--|
| B ▲ (M2) | As listed in PEFA Framework | | |
| B | <i>(i) Controls in the taxpayer registration system</i> Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations. | Any person or business with potential tax obligations are required to have a unique TIN. A major control point is the requirement of a TIN in order to obtain a business license or open a bank account. The introduction of biometric finger prints has facilitated the increased coverage of actual and potential taxpayers by the TIN. The requirement for all businesses, regardless of size, to have accredited sales machines electronically linked to the Revenue Bureau combined with checks by plain clothes tax inspectors has also helped to increase TIN coverage. Use of financial institutions as check points is likely to increase in the future. | -- Tax Proclamations -- ORB staff -- Council of Ministers Regulation 139/2007 on "Provide for the Obligatory Use of Cash Machines", Prime Minister, January, 26, 2007 (on ERCA website). -- Directive 46/2007, Minister of Revenues, August, 2007 on "Provision for the use of Sales Register Machines" (on ERCA website). -- Annex 4 on Regulations for Sales Register Machines: "Tax Payers Obligated to use Sales Register Machines" (2008) (on ERCA website); -- Annex 7, of Regulation 139/2007: "Penalties for Failure to observe Supplier's Obligations" and "Obligation and Prohibited Act of Machine Supplier" (on ERCA website). Comments provided by ORB staff at the Sept. 16-17 workshop. |
| B ▲ | <i>(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations</i> Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.. | Substantive penalties, high enough to act as a deterrent, are listed in the tax proclamations. The evidence is not sufficient to demonstrate consistent administration. Capacity constraints may lead to inconsistent administration. The SIGTAS is making it easier to detect non-compliance. | -- Tax proclamations. -- ORB staff. |
| C ▲ | <i>(iii) Planning & monitoring of tax audit and fraud investigation programs</i> There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria. | A system of audit plans based on risk assessment criteria was instituted in 2008/09, one of the results of the BPR. A B rating might be appropriate, but the system needs to "bed-down" first. | -- ORB staff. |

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Overall rating of C (C, B and D for the three dimensions). Increasing coverage of TIN and strengthened linkages with other systems, plus the strengthening of the tax audit system beginning early 2009/10 explain the improved score.

²⁵ A PEFA assessment of another country conducted by the author of this assessment identified lawyers as a high risk category.

3.5.3 PI-15: Effectiveness in collection of tax payments

Collection effectiveness is determined by reviewing: (i) collection ratio for gross tax arrears (percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year); (ii) effectiveness of transfer of tax collections to the Treasury by the revenue administration; and (iii) frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

(i) Collection ratio for tax arrears

The Oromia Revenue Bureau claims that it collects all tax debts, partly through use of enforcement measures. The SIGTAS is facilitating the recording and tracking of tax debt. The collection ratio for tax arrears (tax arrears collected during the fiscal year as a percentage of the stock of tax arrears at the beginning of the fiscal year) averaged 94 percent over the last three fiscal years. The stock of tax arrears at the end of the fiscal year as a percentage of total tax collected averaged 1.4 percent over the last three years. Disputes, which often arise, particularly in the case of presumptive turnover taxes (Category C taxpayers – the majority of tax payers - with sales of less than ETB 100,000 a year and who do not keep books of account), may result in delays in the collection of debts; as noted under PI-13, the tax education campaigns are, however, lowering complaints.

(ii) Effectiveness of transfer of tax collections to the Treasury

A significant proportion of tax collected by ORB branches in woredas and town administrations, particularly Agricultural Income Tax and Rural Land User fees, is deposited with WOFEDs/TOFEDs (town administration finance and economic development offices) and spent by them in accordance with their approved budgets; block grant transfers are reduced commensurately. Tax collections not deposited with WOFEDs/TOFEDs is kept in the ORB branches prior to transfer to their accounts (B accounts, see PI-17) held in local branches of the Commercial Bank of Ethiopia (CBE) or is deposited directly into these accounts, depending on how close the bank is. Tax payments in cash deposited directly at Revenue Bureau offices may not be transferred to the local Revenue Bureau bank accounts (and then to CTA) until the amount of cash reaches ETB 5,000.; the transfer may not be made for up to a month, depending on the time of year..²⁶ Deposits in ORB bank accounts will be transferred to BOFED's Central Treasury Account (CTA) in National Bank of Ethiopia within a few days via telegram.

The frequency of tax collections is not even during the year, reflecting seasonal influences. For example, the end of October is a deadline for declaring profits tax, and cash may accumulate in Revenue Bureau offices up to that point, resulting in a spike in transfers to CTA (after transfer to the Bureau bank account) after that date. As yet, there is no system for tax revenue to be paid directly into CTA.

²⁶ Payment of less than ETB 1000 has to be in cash. If a tax payer's obligations span more than one woreda, then these are paid to the Revenue Bureau branch where the zonal administration is located.

(iii) Frequency of reconciliations between tax assessments and amounts received by the Treasury

Until recently, rigorous reconciliation was difficult, as tax arrears records were not complete or well-defined (due to the bulk of taxpayers in Category C). Facilitated by the expansion in coverage of SIGTAS and the taxpayer education campaigns (PI-13), rigorous reconciliation is now practised. Now, complete reconciliation of tax assessments and transfers to the CTA take place at least quarterly within six weeks of the end of the quarter). In addition, reports on tax collection are prepared by ORB for BOFED, showing tax collection for each type of tax at woreda level, zonal administration level and regional level. The Internal Audit Department conducts regular reconciliation of records of tax collection with deposits in Revenue Bureau bank accounts and subsequently in CTA.

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|--|--|--|
| C+ (M1) | | | |
| A | <p><i>(i) Collection ratio for gross tax arrears and ratio of tax arrears to total tax revenue collections</i></p> <p>The average tax arrears collection ratio in the two most recent fiscal years was 90% or above OR the total amount of arrears is insignificant (i.e. less than 2% of total annual collections).</p> | <p>In the past, the instances of disputed presumptive tax assessments (Category C taxpayers, comprising the majority of tax payers) and the long period allowed for making payments complicated formal estimation of the amount of tax arrears at the end of each year. . The tax payer education campaigns combined with the expansion of coverage of SIGTAS are enabling much greater compliance with the tax laws and speedier resolution of disputes.. The Bureau pointed out that most taxpayers pay on time. The collection ratio of tax arrears averaged 94 percent over the last three fiscal years and tax arrears as a percentage of total collections averaged 1.4 percent.</p> | <ul style="list-style-type: none"> -- Revenue Bureau staff. -- Comments of Revenue Bureau provided at the September 16-17 workshop. |
| C | <p><i>(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.</i></p> <p>Revenue collections are transferred to the Treasury at least monthly.</p> | <p>Revenues deposited in cash at ORB branches may not be transferred to ORB bank accounts until up to one month, depending on when the amount of cash reaches ETB 5,000. Deposits held in ORB bank accounts are transferred to BOFED's Central Treasury Account every few days.</p> | <p>-- Revenue Bureau staff.</p> |
| B | <p><i>(iii) Frequency of complete accounts reconciliation</i></p> <p>Complete reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place quarterly within six weeks of the end of the quarter..</p> | <p>The strengthened compliance with tax registration and declaration obligations (partly due to the taxpayer education programmes) combined with the increasing coverage of SIGTAS is reducing the magnitude of tax arrears and, within these, the amounts of tax assessments in dispute. Complete accounts reconciliation is being facilitated accordingly.</p> | <ul style="list-style-type: none"> -- Head, Revenue Authority -- Comments provided by Revenue Authority at the September 16-17 workshop. |

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The ratings were B, A, C and overall C+ (though mistakenly shown as C), for all regions, but the supporting evidence is scanty.

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

Effective execution of the budget in accordance with work plans requires that spending ministries and agencies receive reliable information on the availability of funds within which they can commit expenditure. This indicator assesses: (i) the extent to which cash flows are forecast and monitored; (ii) reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment; and (iii) the frequency and transparency of adjustments to budget allocations above the level of management of MDAs.

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

Bureaus are required to prepare cash flow forecasts (based on disaggregated revenue and expenditure projections, taking into account future payments becoming due on the basis of commitments entered into earlier and taking into account pre-payment advances to contractors) at the beginning of the new financial year on a quarterly and monthly basis. If necessary, these are updated every month on the basis of actual cash inflows and outflows. In practice, capacity constraints result in quarterly updating as a matter of routine. BOFED uses the cash flow forecasts to estimate cash balances at the end of each month and then to prepare monthly spending limits for each bureau.

About 50 percent of ORG's budgeted domestically-funded expenditure consists of subsidies to woredas and urban administrations. These transfers are virtually guaranteed and the monthly disbursement pattern is planned in advance (simply the total divided by 12). Out of the other 50 percent, about 25 percent is for personnel expenses, which are also highly predictable on a monthly basis. Thus, cash flow forecasting is of importance to about 37 percent of total ORG expenditure.

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

The only ceiling on expenditure commitments is the approved budget itself. The internal control system (PI-20) guards against spending commitments being entered into that are not covered by the approved budget or that would cause the approved budget limit to be exceeded. The purpose of the monthly cash spending ceilings, derived from the cash flow forecasts (dimension i), is to help keep spending to within the amount of cash available. Given the inherent element of uncertainty in cash flow forecasting, it may be the case that a cash shortage might arise (borrowing is prohibited), but, in practice, this situation usually does not arise due to revenue collection being higher than budgeted revenues (PI-3). In the circumstances where a cash shortage does arise, the BOFED and relevant sector bureaus can determine the feasibility of an offsetting adjustment or allocate funds from the Contingency budget. Failing this, BOFED can request MOFED for temporary assistance (supported by a cash flow forecast for the remainder of the year).

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

The Federal Financial Administration Law (both the previous 2003 law and the new 2009 law), along with the Financial Regulations under the previous law, and the annual Budget

Proclamation laws provide for a degree of transparency in making adjustments (the laws and regulations at regional government level are very similar to the Federal Government laws). Two types of adjustments can be made to budget allocations, above the level of sector bureau management:

- *Transfers between public bodies, spending ceiling unchanged:* the BOFED head can authorize transfers between bureaus with respect to capital expenditure that leave total spending unchanged (allocating from the capital budget to the recurrent budget is not allowed); prior regional council approval is not required. There is no reported record of the frequency of adjustments, although the date of each adjustment is presumably contained in the original source data. Only the total value of transfers in and out for each bureau is reported, but this says nothing about frequency. The low score for PI-2 indicates that transfers are substantial in monetary terms.
- *Supplementary budgets, total spending ceiling increased:* Only one supplementary budget per year is presented to the Regional Council for approval. This cannot happen until January at the earliest. In principle, the Regional Council is supposed to approve the supplementary budget before the proposed new spending takes place in exactly the same way that it approves the initial budget before spending takes place. In practice, as in the case of 2008/09, the proposed spending takes place first and the supplementary budget is approved by the Regional Council after the fact (on July 14th, 2009 in the case of 2008/09). In effect, the Regional Council’s fundamental right to approve withdrawal of public funds from the Treasury prior to the money being spent is violated.

Recent Developments

The BPR exercise completed during 2008/09 combined with the increased emphasis placed by the new Federal Government Financial Administration Proclamation (August 2009) on cash flow forecasting (but yet to be supported in revised Financial Regulations and Directives) are contributing to improved cash flow forecasting.

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|--|--|---|
| C+ (M1) | | | |
| B | (i) A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows. | Information provided by BOFED. The updating is supposed to be monthly, but in practice, due to capacity constraints, it is quarterly. | -- BOFED Financial Administration and Property Management Department. -- Draft East Afritac (IMF) Aide Memoire on Cash Management and Banking Arrangements in Ethiopia, February 2010. |
| A | (ii) Bureaus are able to plan and commit expenditure for at least 6 months in advance in accordance with the budgeted appropriations. | The cash flow forecasting framework, combined with the internal controls guarding against over commitments (PI-20), the favorable revenue situation (PI-3), and the ability to access the contingency budget or access temporary financing from MOFED in the event of unexpected cash shortfalls, enable commitment of expenditures within a medium term time horizon. | -- BOFED Financial Administration and Property Management Department. |

| Score | Minimum Requirements | Justification | Information Sources |
|-------|--|--|--|
| C | (iii) Significant in-year adjustments to budget allocations are frequent, but undertaken with some transparency. | Significant in-year adjustments take place above the level of bureau management through: (i) transfers between bureaus authorized by BOFED Head; and (ii) supplementary budgets (increase in total spending ceiling) requiring prior approval of Regional Council. The Financial Administration Law, Financial Regulations and annual budget proclamations provide for a degree of transparency in making adjustments. | -- BOFED Financial Administration and Property Management Department -- Oromia Regional bureau Budget Performance Reports -- Financial Administration Laws and Regulations. -- Annual Budget Proclamation Laws. |

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All three dimensions are rated A, but this seems incorrect (particularly for dimension iii).

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

This indicator assesses: (i) the quality of debt recording and reporting; (ii) the extent of consolidation of cash balances; and (iii) the systems for contracting loans and issuing guarantees.

(i) Quality of Debt Recording and Management

Under the Financial Administration Proclamation, the ORG is not allowed to borrow. It may be allowed to borrow in future once it enacts a new Financial Administration Proclamation based on the new (August, 2009) Federal Government Financial Administration Proclamation.

(ii) Extent of Consolidation of the government’s cash balances

As part of cash management reform aimed at reducing the stock of unutilized cash sitting in bank accounts, a zero-balance account (Z accounts) system was instituted in 2004/05 and became fully operational in 2007/08.²⁷ Under this system, bureaus have ‘virtual’ accounts at Commercial Bank of Ethiopia (CBE) into which funds are deposited each day by BOFED from its central treasury account (CTA) held at National Bank of Ethiopia up to the cash availability limits set by BOFED. These limits are set on the basis of the projected cash balances derived from the requirements of sector bureaus indicated in the monthly cash flow projections they make at the beginning of each year (PI-16). Bureaus can draw-down from the virtual account the funds required for making payments (for salaries, non-wage recurrent expenditure and capital expenditure) up to the monthly limit, subject to the provision of supporting documentation (for non-wage expenditure). Unused deposits are “swept” back into the CTA at the end of each day. In effect, the CTA and the Z accounts constitute a Treasury Single Account (TSA). Balances are calculated on a daily basis. Previous to this system the ORG BOFED was making direct payments in cash on behalf of the sector bureaus.

In addition to the Z accounts, there are donor project bank accounts and revenue bank accounts. Donor funds provided through Channel 1 are deposited in bank accounts under the control of BOFED, but they cannot be zero-balanced at the end of each day; i.e. the balances

²⁷ Under EMCP, a cash management manual was prepared at Federal Government level, which has helped to guide strengthening of cash management at regional level.

are known but are not consolidated into the central treasury account. Donor funds provided through Channel 2 (including for extra-budgetary funds such as the Global Fund) are deposited into commercial bank accounts under sector bureau control (but BOFED approval is still needed to open them). Protection of Basic Services (PBS) funds are effectively budget support funds and are deposited into the CTA. About 70 percent of all deposits in ORG-controlled bank accounts are with TSA.

With regard to revenue bank accounts (known as B accounts), these are held by regional revenue offices and woreda revenue offices for the purpose of depositing revenues into them; the revenues are subsequently transferred to CTA (woreda revenue offices collect certain items of revenue, such as agricultural income tax). (see PI-15 ii).

(iii) Systems for contracting loans and issuance of guarantees

The ORG is not allowed to borrow or guarantee loans.

EMCP Impact Assessment Study: With regard to Oromia, 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).

| Score | Minimum Requirements | Justification | Information Sources |
|-------------|---|---|--|
| (M2) | | | |
| B | <i>(ii) Extent of consolidation of government's cash balances</i> Most cash balances are calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement. | About 70 percent of ORG's bank balances are under the CTA/Z accounts, effectively the TSA; consolidation takes place by definition every day and balances are calculated daily. Bank balances outside this arrangement, such as donor project and extra-budgetary fund accounts, are calculated regularly but not consolidated with the TSA balances. | -- BOFED Financial Administration and Property Management Department. -- IMF (East AFRITAC) draft technical assistance report: "Review of Cash Management and Banking Arrangements in the Federal Government of Ethiopia", February 2010. |

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This indicator was deemed to be “Not Applicable” at the regional level (but only correct for dimensions (i) and (iii)).

3.5.6. PI-18: Effectiveness of payroll controls

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management. This indicator is concerned with the payroll of public servants only; wages for casual labor and discretionary allowances are included in the assessment of general internal controls (PI-20).

Given the decentralised nature of personnel and payroll management, the assessment team met officials from the Oromia Education Bureau as well as from BOFED; their observations mainly match the observations of BOFED.

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

Payroll and personnel management are decentralized to sector bureaus in the Ethiopian regions. Wages and salaries are paid by the Financial Administration and Property Management Department (FAPMD) on the 24th of each month on the basis of the list of personnel (originally prepared by Human Resources Department – HRD) contained in its payroll system. Prior to this, the Head of the HRD will send a list to Head of FAPMD of any changes to its personnel records that need to be reflected in the payroll, including attendance related changes. In this regard, managers of departments are required to submit to HRDs signed attendance records of the staff under them. From time to time, the Civil Service Agency checks that the positions of the staff on the lists maintained by HRDs are consistent with the list of established positions. .

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

Changes to personnel records (hiring, firing, retiring, promotions, demotions, position shift) are the responsibility of the Human Resource Department, following notification by the head of the employee’s department. The list of staff sent to FAPMD each month will reflect any changes made prior to the 24th; changes made after the cut-off date will be reflected in a subsidiary payroll or the following month’s payroll.

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

The main controls are: (i) the Heads of Human Resource Department and FAPMD and their subordinates (head of personnel, the chief accountant and cashier); these have to sign off on the staff list and payroll list, prepared by staff at lower levels; i.e. in line with the principle of the segregation of duties; (ii) the staff member being paid also has to sign off; (iii) only one employee is authorized by the Head of FAPMD to access the computerized payroll system, and then only through the use of a password; the payroll is contained in an Excel file, using “Format”, which prevents abuse; (iv) the staff in charge of the payroll cannot change the list of personnel provided by Personnel Department to the FAPMD.

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

Payroll audits are conducted as one component of the internal audit system (PI-21) and external audit system (PI-26). Although the internal audit function was established a few years ago, it has really only become functional since the beginning of 2009/10, due to the BPR exercise leading to increased staffing levels (discussed further in PI-21). It is auditing the payroll every quarter. The scope of the external auditor (ORAG) also includes payroll audits. The larger bureaus, including the Education Bureau visited by the assessment team, are audited by ORAG every year (PI-26). Given the decentralized payroll and personnel management system, ORAG’s audits of bureaus cover this for all bureaus over a period of 2-3 years (as ORAG does not audit all bureaus each year).

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|--|--|---|
| B+ (M1) | | | |
| B | <i>(i) Degree of integration and reconciliation between personnel records and payroll data</i> Personnel data and payroll data are not directly linked, | The linkages between the personnel records and the payroll are manual, but the decentralized nature of the payroll system facilitates close linkages. Each month, the Human Resources Department notifies the FAPMD of any changes to be made to the payroll (e.g. recruitment, changes in attendance – as indicated in signed | -- BOFED FAPMD -- FAPMD Education Bureau |

| Score | Minimum Requirements | Justification | Information Sources |
|-------|---|---|--|
| | but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. | attendance records). The Civil Service Agency also checks HRD personnel lists periodically in order to determine that staff positions are covered in the civil service establishment list. | |
| A | (ii) <i>Timeliness of changes to personnel records and the payroll data</i> Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payroll. Retroactive adjustments are rare. | The decentralized nature of the payroll management system supports timely changes to personnel records followed by timely changes to the payroll. Changes made to personnel records after the 24 th of each month are reflected in a subsidiary payroll or next month's payroll. | -- Ditto. |
| A | (iii) <i>Internal controls of changes to personnel records and the payroll</i> Authority to change records and payroll is restricted and results in an audit trail. | The audit trail is reflected in the letters sent by Human Resources Management Department, signed (multiple signatures) forms approving the list of personnel and the monthly payroll prepared by lower level staff. Only one person has access to the Excel-based payroll system in FAPMD; formatting features in this system also guard against abuse. | -- Ditto |
| B | (iv) <i>Existence of payroll audits to identify control weaknesses and/or ghost workers</i> A payroll audit covering central government entities has been conducted at least once in the past three years (whether in stages or as one single exercise). | IADs in sector bureaus have been conducting payroll audits during the year, but the frequency and quality has been significantly strengthened since the beginning of 2009/10 through a large increase in staffing levels of the IAD (see PI-21) resulting from the BPR. The scope of ORAG's annual audits of the major bureaus (such as Education Bureau) includes payroll audits. As indicated under PI-26, ORAG effectively audits every public body over a 3 year period (each year for the larger ministries) . | -- Inspection Department in BOFED; -- FAPMD Education Bureau. -- Internal audit department, Education Bureau. -- Auditor General, ORAG. |

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All four dimensions received A ratings for all of the seven regions assessed. The A rating for dimension (iv) seems too high, given that the internal audit departments were not fully functioning yet, and given that the external audit function did not cover all public body payroll systems each year, due to capacity restrictions.

3.5.7. PI-19: Competition, value for money and controls in procurement

A well-functioning procurement ensures that money is used efficiently and effectively. This indicator assesses: (i) the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases; (ii) justification of use of less competitive procurement methods; and (iii) existence and operation of a procurement complaints mechanism.

Procurement legislation at the regional government level is governed by Proclamation 100 (EFY 1997; 2004/05 in the Gregorian calendar), itself based on the federal procurement proclamation approved that same year, and supporting directives and manuals. The Federal Government enacted a new procurement proclamation dated September 2009, the main difference being the extension of coverage to property administration (one of the products of BPR). The ORG is currently revising its procurement legislation to bring into line with the new federal government proclamation.

Procurement is mainly the responsibility of public bodies. As a result of BPR, the responsibility for procurement, previously under a separate department, has been subsumed under the newly created (as of the beginning of 2009/10) Financial Administration and Property Management Department (FAPMD). Some efficiency gains are being achieved, notably a sharp reduction in the number of days required to evaluate tenders. The BOFED plays a regulatory, standard setting, technical advisory, training, inspection, monitoring, and complaints addressing role.

(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases

As specified in the legislation, open competition is the preferred method of tendering above ETB 1,500. Purchases up to this amount can be made directly, with the annual maximum amount not exceeding ETB 7,000; a pro-forma invoice is required for purchases above ETB 300. Procurement methods other than through open competition (international or national) can be used above this threshold under circumstances specified in the legislation: restricted tendering, request for proposals, two stage tendering, and direct procurement (sole source supplier). The maximum thresholds for restrictive tendering are ETB 400,000 for goods, ETB 2 million for construction and ETB 300,000 for consultancy services.

The Bureau Head has to approve procurement using restrictive tendering methods. Above the maximum thresholds for restrictive tendering, National Competitive Bidding or International Competitive Bidding procedures must be used. Only International Competitive Bidding procedures can be used for contracts above ETB 10 million, ETB 50 million and ETB 2.5 million, for goods, construction and consultancy procurement respectively.

In principle, procurement sections of FAPMDs in sector bureaus can collate data on contracts awarded, in terms of numbers, values and type of procurement method and send the information to the procurement section in the BOFED FAPMD. In practice, this is not done systematically, due to capacity constraints in the sector bureaus, although the information can be marshaled for auditing purposes. For example, the procurement section of the Education Bureau FAPMD only has one person working in it. Thus BOFED is unable to collate information on procurement, even though the procurement legislation requires sector bureaus to send the information to BOFED if requested.

(ii) Justification for use of less competitive procurement methods above the threshold

The procurement legislation clearly outlines the criteria under which less competitive procurement methods above the threshold can be used. As indicated in (i), BOFED does not keep an official record of contracts awarded the extent and the reasons for the use of less competitive procurement methods, notwithstanding its legislated inspection role. The internal audit departments in the sector bureaus are supposed, *inter alia*, supposed to assess how well the procurement law and its directives are being complied with by procurement sections. As mentioned in PI-21, however, the internal audit function has only recently started to function fully.

Nevertheless, the procurement section of BOFED claims, on the small sample of procurement contract data that it obtains, that the use of restrictive tendering is generally well-justified, in accordance with the legislation.

(iii) Existence and operation of a procurement complaints mechanism

The procurement legislation provides for a mechanism for submitting complaints (Chapter VIII: Submission of Complaints on Public Procurement). In the first instance, any complaints about the way the procurement process has been conducted are submitted to the head of the procuring entity. The complaint has to be submitted within 5 days of the circumstances justifying a complaint become known. The head of the procuring entity has up to 15 days to reply. If he/she doesn't reply or the complainant is not satisfied with the reply, the complaint may be submitted to the procurement section in BOFED, which has 15 days to reply. If still dis-satisfied, the complainant can take the matter to the courts.

At present, there is no procurement-specific external body that can impartially review complaints (though the establishing of such a body is being considered).

In practice, very few complaints BOFED receives very few complaints a year, less than 10. Many complaints reflect inadequate knowledge of the procurement procedures and are therefore resolved by the procuring entity through explanation of the procedures to the complainant.

EMCP Assessment Study

The study indicates: (i) the procurement law and directives have been implemented region-wide since 2005 (EFY 1998), procurement manuals distributed and training delivered; (ii) the standard bid document distributed to all offices in the region and implemented by most of the sector bureaus (less so for ZOFED and WOFEDs); (iii) BOFED approved a procurement service structure comprising 5 staff, though the full complement of staff has not yet been reached in some cases; (iv) a directive on pool procurement method for zones and woredas was distributed; (v) the survey indicated perceived improvements in the system, but also pointed out issues concerning inconsistency of rules as per the procurement manual and directives, lack of flexibility on the procurement of urgently needed goods, repeated cancellation of awards, lack of adequate training, absence of qualified experts, poor procurement planning, lack of attention to quality of goods received, and insufficient technical support from MOFED/BOFED.

| Score | Minimum Requirements | Justification | Information Sources |
|---------------|---|--|--|
| C (M2) | | | |
| D | <i>(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases</i> Insufficient data exist to assess the method used to award public contracts. | Procurement is in most cases the responsibility of procuring entities established within sector bureaus. These do not send procurement information to the procurement department in BOFED, because capacity constraints within the bureaus hinder the collation of information, and also, it seems, because BOFED does not request it (although the legislation provides for such requests). | -- Procurement legislation. -- Head of procurement section in BOFED FAPMD. -- Head of procurement section in Education Bureau FAPMD. |
| C | <i>(ii) Justification for use of less competitive procurement methods</i> Justification for use of less competitive methods is weak or missing. | The procurement legislation indicates the criteria for using less competitive procurement methods above the threshold. BOFED collects only little information on justifications for using less competitive methods, but claims that the case for using less competitive methods is generally well-justified (the sector Bureau Head has to first approve the use of such methods). The IAD has a role in assessing whether justification has been demonstrated in terms of the criteria listed in the proclamation, but the internal audit function is still | -- As above. |

| Score | Minimum Requirements | Justification | Information Sources |
|-------|--|---|---------------------|
| | | developing. | |
| B | <p>(iii) <i>Existence and operation of a procurement complaints mechanism</i> A process (defined by legislation) for submitting and addressing procurement complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority.</p> | <p>The procurement legislation provides for a complaints submission mechanism. This is operative. A procurement-specific external higher authority is not provided for in the legislation; complaints above the level of BOFED have to go through the court system. In practice, most complaints are resolved by the procurement entity itself.</p> | --- As above. |

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A C+ rating was assessed, but on the basis of insufficient supporting evidence.

3.5.8. PI-20: Effectiveness of internal controls for non salary expenditure

The control systems in the Federal Government date back the time of Emperor Haile Selassie, who adopted a mix of French and British-type systems. The regions, prior to decentralization, used the same control systems and have continued to use them since decentralization. The financial control systems are embedded in the Financial Regulations (themselves derived from the Financial Administration Proclamation) and associated internal directives and other control systems, such as those related to personnel management, are embedded in the Civil Service regulations. The Internal Audit Manual of the Federal Government, contains the basic principles of internal control systems. The recently (mainly during 2008/09) BPR exercises are resulting in streamlined control systems in the interests of greater efficiency.

(i) Effectiveness of expenditure commitment controls

Section 25 of the 2003 Federal Government Financial Administration Proclamation (the regional government proclamations are virtually the same) and Section 32 of the 2009 Federal Government Financial Administration Proclamation states that expenditure commitments cannot be entered into without approval of the head of the public body (or a person authorized by him) and without a “sufficient unencumbered balance from the budget to discharge any debt that will be incurred during the fiscal year in which the contract or other arrangement is made”. Penalties for spending commitments entered into without supporting budget appropriation are fines and up to 10 years’ imprisonment (Section 70 of the Financial Administration Proclamation, paragraph 4).

As noted under PI-16 (ii), this means that commitments depend only on the approved budget, not on actual cash availability. However, cash flow forecasting (PI-16 i), the quality of which is gradually improving, and more efficient cash management on the basis of the expanded Treasury Single Account system (PI-17 ii) help to reduce the risks of cash not being available when the time comes up for payment (which may be a few months away, depending on the nature of the commitment).

Managers in all the regional BOFEDs met by the assessment team strongly emphasized the strength of the controls over expenditure commitments, in terms of compliance with the approved budget.

(ii) Comprehensiveness, relevance and understanding of other internal controls and processes

Basic internal controls in place are: segregation of duties and multiple signature systems (at least two for each transaction), prompt and proper recording of transactions and events, pre-numbering (sequentially) of originating documents (such as goods’ received notes, cash receipts (as noted in PI-7) and invoices, and accounting for these; independent recording of transactions in control accounts and periodic checking of these with the balances on the appropriate ledger; reconciliation of cash books with bank statements; cross-checking of documents (e.g. invoice with purchase order and goods received note); and verification of physical assets.

The BPR is resulting in some streamlining, for example, reduction in the number of signatures required and greater flexibility for department managers (e.g. a department manager can provide budget execution information directly to the Accounts Section rather than go through the Bureau Head each time).²⁸ As the internal audit function develops (PI-21), further streamlining and managerial flexibility will evolve.

With regard to personnel management, controls include: (i) Leave approval: 30 days annual leave are allowed. Leave is approved by the Personnel Office and further approved by the Bureau Head; (ii) Sick leave: a physicians note is required; (iii) Study Leave: if the study leave is for 2 years, for example, the officer must return to service for at least four years, otherwise he/she must pay back any public monies received to finance the study leave. Standardised forms must be used for applying for the types of leave indicated above.

Documentation on regulations and procedures is readily accessible in offices, enabling good understanding by staff.

(iii) Degree of compliance with rules for processing and recording transactions

Compliance appears to be good, not just because of a general culture of compliance that goes back several years, but also because of administrative penalties that may apply if rules and procedures are violated; for example, leave taken in excess of the approved amount without prior notification may be deducted from salary payments.

| Score | Minimum Requirements | Justification | Information Sources |
|---------------|---|---|--|
| B (M1) | Listed in PEFA Framework | | |
| B | <i>(i) Effectiveness of expenditure commitment controls</i> Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception. | Commitments are authorized on the basis of the approved budget allocations (as specified in the legislation).. Good revenue performance (PI-3), strengthened cash flow forecasting and cash management systems (PIs 16 and 17) help to minimize the risk of cash unavailability at the time of actual payment. In addition, if there is a serious risk of a cash shortfall, managers try to find offsetting adjustments in other parts of the budget. . | -- Financial Administration proclamations (2003 and 2009) and Regulations (2003). -- BOFED FAMPD and Inspection Department staff. |
| B | <i>(ii) Comprehensiveness,</i> | Financial and non-financial control systems are | -- As above. |

²⁸ The Education Bureau FAPMD provided the assessment team with an example of process streamlining resulting from the BPR: reduction in the number of signatories required from five to two for any kind of expenditure request (in this case, an advance), the person who prepares a form and the person who approves.

| | | | |
|---|--|--|--|
| | <p><i>relevance and understanding of other internal control rules/procedures</i></p> <p>Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some cases be excessive and lead to inefficiency.</p> | <p>comprehensive, well documented and generally understood. The BPR exercises identified areas where controls could be streamlined, resulting in efficiency gains, partly taking into account the embedding of IBEX. Some streamlining has already taken place (e.g. reduction in the number of signatures required) but the process is not yet finished, and an A rating is probably premature.</p> | |
| B | <p><i>(iii) Degree of compliance with rules for processing and recording transactions</i></p> <p>Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.</p> | <p>The annual report of ORAG for April 2007-March 2008 identified some areas of insufficient adherence to internal controls, particularly related to procurement. The Chairman of the Finance and Budgeting Committee (FBC) in the Oromia Regional Council confirmed this to the assessment team.</p> | <p>-- BOFED FAPMD and IAD staff -- ORAG annual report to FBC, Regional Council. -- Regional Council FBC.</p> |

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The indicator received an A rating, which seems too high.

3.5.9 PI-21: Effectiveness of internal audit

Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). This indicator assess: (i) coverage and quality of the internal audit function; (ii) frequency and distribution of reports; and (iii) extent of management response to internal audit findings.

The internal audit (IA) function is provided for in the Financial Administration Proclamations and Financial Regulations, and its development is one of the components of the EMCP. The pre-audit function was phased out during 2006/07 in tandem with the phasing in of the post-audit function. Key features are:

- IA departments in sector bureaus formally report to both the heads of the bureaus in which they are established and to the Inspection Department (ID) in BOFED (i.e. dual subordination), which has overall responsibility for overseeing the development of the IA function.
- The single pool system includes the internal audit function (i.e. ZOFEDs and WOFEDs perform the IA function on behalf of sector offices):
- An internal audit manual and training manuals have been developed (based on the Federal Government IA manual and with help from an international consultant in MOFED), with focus on meeting professional standards (as per the International Standards for the Professional Practice in Internal Audit (ISPPA), issued by the Institute of Internal Auditors). The focus of internal audit is, accordingly, on system issues.
- As a minimum qualification, internal auditors at sector bureau are required to have a bachelors of arts degree in Accounting, Economics and Management; at zonal administration level, the minimum qualification is a diploma.

- With help from ORAG, the ID has organized training courses (through Training Management Institute) for internal auditors at both sector bureau and woreda levels, monitors and evaluates audit reports and provides technical assistance; a training course was delivered to woredas during 2009 (no training courses for woredas are planned for 2010).
- ORAG “accredits” internal auditors through issuance of certificates (MOFED has provided training in this regard).
- Up to 2009/10, IADs were typically manned by only one staff person. As a result of the BPR, the numbers of staff positions have been increased to 5-8 (5-6 in the Education Bureau), with effect from the beginning of 2009/10.

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

According to the ID in BOFED, IA units are operational in all 42 bureaus and 18 zonal administrations and in most woredas (WOFEDs perform the IA function through the single pool system). They generally meet professional standards as established by ISPPIA and focus on systemic issues.

On paper, this dimension would appear to score A or B. In practice, however, the IA function is still developing and cannot be said to be fully operational, mainly because IA departments have had insufficient numbers of staff until very recently. Even with increase in the number of positions as of the beginning of 2009/10, recruitment of staff to fill these positions takes time. As with the rest of the civil service, pay and benefit levels are issues constraining the recruitment and retention of staff.

(ii) Frequency and distribution of reports.

Prior to 2009/10, IADs were submitting reports on a quarterly basis to their bureau heads and to ID. Reports on the payroll have been included in these. For 2009/10, the frequency is in the process of being increased to 2 months. There is no legal requirement to submit reports to ORAG (which is accountable to the Regional Council and not the executive), but ORAG can (and does) obtain IA reports on request.

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

According to ID, most managers take actions in response to the findings of internal audit reports. The speed and quality of response depends mainly on the nature of the audit report findings (some issues can be resolved more quickly than others). However, given that the IA function and the recognition of its importance are still evolving, it is doubtful that management response is quick and comprehensive.

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The report notes the progress made in introducing the internal audit function. Better transparency and service delivery, effective control, more accountability at the local level and efficiency in audit report preparation, are among the results achieved by the internal audit reform programme. Shortages of staff (including problems in retaining trained staff, except for WOFEDs) and budget and insufficiency of continuous training are mentioned as problems.

Specific observations of the study:

- 11 percent of the sample sector bureaus did not have any approved positions for internal audit functions.
- Management did not take actions on IA findings in 27 percent of sector bureaus (management follow-up was much higher for WOFEDs).
- 36 percent of sector bureau staff had a good understanding of internal audit (18 percent of Heads of Bureaus), though a much higher percentage for WOFED staff).

| Score C+ M1 | Scoring Criterion | Justification | Information Sources |
|-------------------|---|---|--|
| C | <i>(i) Coverage & quality of the internal audit function</i> The function is operational for at least the most important government regional government entities and undertakes some systems review (at least 20 percent of staff time), but may not meet recognized professional standards. | On paper, the IA function is operational for all regional government entities, meets professional standards and focuses on systemic issues. In practice, insufficient numbers of positions (up until the end of 2008/09) and the time it takes for a pool of professional auditors to be established has resulted in the function only now beginning to be fully established. As a result of the BPR, the numbers of positions in IA departments has been sharply increased to 5-8 since the beginning of 2009/10 and the positions are gradually being filled. | -- Federal Government internal audit manual. -- Meeting with ID (BOFED) staff. -- Meeting with IA department in Bureau of Education. |
| A | <i>(ii) Frequency & distribution of reports</i> Reports adhere to a fixed schedule and are distributed to the audited entity, BOFED and ORAG. | Up to 2009/10, IA departments prepared quarterly reports and submitted to the head of the bureau in which they are located and to ID in BOFED. Reports are provided to ORAG on request (the legislation does not provide for obligatory submission of reports to ORAG). | -- ID, BOFED |
| C | <i>(iii) Extent of management response to internal audit findings</i> A fair degree of action taken by many managers on major issues but often with delay. | With the IA function and the perception of its importance still evolving, and IADs understaffed until only recently, a B rating would be too high. A rating of D would be too low; the culture in Ethiopia of following rules indicates that IAD recommendations would not be largely ignored. | -- ID, BOFED; IA department in Education bureau. |

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ORG was rated at C, B and A for the three dimensions and at B+ overall (which is incorrect, according to the M1 scoring method, the score should be C+). The A rating for dimension (iii) seems too optimistic. The report mentions that the IA function is still being developed, and strengthening was expected.

3.6 Accounting, recording and reporting

This set of indicators assesses the timeliness of accounting, recording and reporting. A summary of the scores is tabulated below.

| No. | Accounting, Recording and Reporting | Score | Dimensions | Scoring Methodology |
|-------|--|-------|------------------------------|---------------------|
| PI-22 | Timeliness and regularity of accounts reconciliation | B+ | (i) B (ii) A | M2 |
| PI-23 | Availability of information on resources received by services delivery units | C▲ | (i) C▲ | M1 |
| PI-24 | Quality and timeliness of in-year budget reports | C+▲ | (i) C▲ (ii) A (iii) C▲ | M1 |
| PI-25 | Quality and timeliness of annual financial statements | C+ | (i) C (ii) B (iii) C | M1 |

3.6.1. PI-22: Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Reconciliation between the Central Treasury Account (CTA) held in National Bank of Ethiopia (NBE) and the general ledger (held in IBEX in BOFED) takes place (by FAPMD of BOFED) on a monthly basis within 10 days of the end of the month.²⁹ About 70 percent of ORG deposits are held in CTA/Z accounts. Movements on the CTA account and Z accounts in CBE (see PI-17) are reconciled daily (the CTA and Z accounts are effectively the TSA). Reconciliation is at both aggregate and detailed level. The movement of the transfer accounts (IBEX codes 4001-4017) and zero balance accounts are reconciled against the aggregate balance of the CTA. Bureaus’ bank accounts are reconciled against the ledger by the respective FAPMDs in the bureaus.

There are no significant unreconciled differences between the bank accounts and the records of the Treasury; the reconciliation items mainly consisting of unrepresented cheques, deposits and transfers made on the closing date, uncleared bank deposits and late recording by some budgetary institutions. Differences are normally cleared within the same month and are not carried forward.

BOFED requires monthly bank reconciliation reports in relation to donor-supported programmes and funds, notably the Food Security, Safety Net, PSCAP and WaSH programmes and the Roads Fund (but not, it seems, for the Global Fund, and for donor-funded projects. Opening by donors of bank accounts for projects (known as A accounts) has to be approved first by BOFED; there are less than ten of these, under the control of sector bureaus. The BOFED requires monthly bank reconciliation and submission of reconciliation reports to it by the donors. This is more difficult to check at detailed level for projects being implemented by UN agencies (e.g. UNICEF), which use their own charts of account, but the agencies perform the reconciliations at aggregate level.

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

Suspense accounts and advances are classified in the Chart of Accounts under code 4201 for suspense accounts and codes 4203-4211 for advances. Suspense accounts may include revenue deposits (held in ‘B’ bank accounts) awaiting deposit into CTA. It is possible that these may have uncleared balances that are carried forwards to the next period. Advance accounts include advances to staff and ‘purchase’ advances. Staff advances are supposed

²⁹ IBEX account 4105: “Cash at Bank at Central Treasury”.

(under the Financial Regulations) to be retired within a short space of time (7 days for travel advances), and, according to BOFED, this requirement is adhered to. For the purposes of scoring this dimension, advances exclude prepayments to contractors, as these may not be retired until the end of a project, which may not be until the following year.

The trial balance sheet for the regional bureaus at the end of 2008/09 (EFY 2001) indicates ETB 5.2 million in suspense accounts (recorded as debit), advances to staff of ETB 4.2 million, and purchase advances of ETB 60.9 million. The trial balance sheets for subsequent months also indicate suspense account balances and the stock of advances, but in themselves do not provide enough information to score, as the breakdown between items retired and new items is not shown; i.e. the age profile is not shown. The assessment team was informed by BOFED that such details are contained in the trial balance sheets of individual bureaus and that generating reports at the bureau level was very time-consuming.

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|--|--|---|
| B+ (M2) | As listed in PEFA Framework | | |
| B | (i) <i>Regularity of bank reconciliations</i> Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from the end of the month. | Reconciliation of the bank accounts held under CTA/Z accounts (representing about 70 percent of ORG deposits) with the ledger held in BOFED (in IBEX) takes place every month within 10 days of the end of the month. Reconciliation of other accounts (donor-supported programmes and funds) also takes place every month in most cases, though not necessarily at detailed level, with statements provided to BOFED. | -- BOFED F(FAPMD) -- Example of a bank reconciliation statement. |
| A | (ii) <i>Regularity of reconciliation and suspense accounts and advances</i> Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from the end of the period and with few balances brought forwards. | BOFED claims speedy clearance of advances (within 7 days for travel advances, as required by the financial regulations). Suspense accounts, mainly representing temporary deposit of revenues in bank accounts (B accounts) may be carried forward, but are normally transferred to CTA within a month, according to BOFED (also see PI-15). End-month and end-year trial balance sheets and those of subsequent months do not indicate an age profile. The assessment team's rating is therefore based on BOFED's verbal assurances that suspense accounts and advances are cleared rapidly. | -- Trial balance sheet for total regional bureaus, end-2008/09 (provided by BOFED FAPMD). |

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Dimension (i) is rated as A, but this does not appear to take into account non-Treasury managed accounts. Dimension (ii) is rated as C; external audit reports note reconciliation and clearance issues.

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

The primary education and primary health care post service delivery units (SDUs) at woreda government level are not cost centres in terms of recurrent expenditures; they do not have individual budget classification codes assigned to them. Thus budget execution reports cannot explicitly report on the financial resources they receive relative to their approved budgets. Primary health care centres (catering to outpatients as well as in-patients) are cost centres in terms of recurrent expenditures and can therefore explicitly report on the financial resources they receive relative to their approved budget. Service delivery unit capital expenditures –

both primary education and primary health -- mainly implemented by regional governments, are recorded under project codes in the budget classification system.

The woreda education bureaus (which are cost centres) are responsible for allocating the physical resources purchased under their budgets to the SDUs. In the case of primary schools, the number of students enrolled is the main determinant for the allocation of resources between schools.

Woreda education bureaus forward physical activity reports to zonal education bureaus, which then send to the regional bureau, which then sends to the Regional Cabinet. In principle, these could show the financial and physical resources received by SDUs relative to what they should be receiving through the budget, but, in practice, many schools do not send in reports, mainly due to capacity constraints. The assessment team met Oromia Education Bureau but was unable to meet the Oromia Health bureau.

Information on resources being provided to service delivery units is being increasingly disseminated through the media. In addition, a system for recording resources received, by type of resource (e.g. teachers, books) relative to minimum standards established at federal level (and adapted to regional level), on notice boards posted outside SDUs was developed during 2007-2009 under the Financial Transparency and Accountability Programme (FTAP) and is in the process of being rolled out. The system forms a good basis for monitoring resources received by SDUs.

| Score | Minimum Requirements | Justification | Information Sources |
|-------|--|---|--|
| C ▲ | <i>Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-end delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector (s), irrespective of which level of government is responsible for the operation and funding of those units. (i) Special services undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the region.</i> | Information provided by the Oromia Education Bureau concerning the use of mass media and the posting of information outside service delivery units on resources received. It was not possible to meet the Oromia Health Bureau.. An upward pointing arrow is assigned to indicate progress being made. | -- Oromia Education Bureau, Head, Planning and Budgeting Department. |

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The indicator was rated A, but this appears to be incorrect.

3.6.3. PI-24: Quality and timeliness of in year budget reports

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

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

Quarterly detailed budget performance reports are prepared by BOFED through IBEX for senior management and for MOFED for revenues, recurrent and capital expenditures for each regional bureau (and sub-agencies within each bureau) according to economic classification.

The reports show actual expenditures and not expenditure commitments, though the reports submitted by the bureaus include the expenditure commitments, which are recorded semi-manually (i.e. not through IBEX, which is not yet rolled out to sector bureaus). They do not include capital expenditure financed through donor assistance, except for those donors providing assistance through Channel 1, using the government’s budget classification system (not necessarily the same thing). The reports are just tables.

(ii) Timeliness of the issue of the reports

The reports are issued quarterly, within one month of the end of the quarter. In terms of consolidated regional bureau plus woreda reports, these tend to take longer, as IBEX has not yet been rolled out to woredas.

(iii) Quality of information

BOFED checks information submitted by the bureaus for accuracy. There are no material concerns for the accuracy of data, as every finance officer is liable to provide on request supporting documents for payments. Senior accountants – and the internal audit department -- check the documents. At the woreda government level, however, (beyond the scope of this study), accuracy may suffer due to high staff turnover, and difficulties in handling the double entry book-keeping system that was introduced in EFY 1998 (2005/06), partly because manual methods are still being used; (insufficiently trained staff may make mistakes when selecting the correct debit code for each entry under a credit code (or vice versa), leading to reconciliation problems).

Ongoing actions and plans

Although IBEX has been rolled out to the regional bureaus, sector bureaus are not yet electronically linked with BOFED. Financial performance data is hand-carried to BOFED in the form of CDs. The next stage of roll-out is the networking of the sector bureaus with BOFED; work is commencing this year. IBEX is also to be rolled out to woredas. Work on preparing an upgraded and more user-friendly version of IBEX (IBEX 2), which should lead to fewer mistakes being made, is close to completion.

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|---|--|---|
| C+ (M1) | As listed in the PEFA Framework | | |
| C▲ | <i>(i) Scope of reports in terms of coverage and compatibility with budget estimates</i> Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage, but not both. | Detailed comparison is possible for revenues, recurrent expenditures, domestically-financed capital expenditure and some items (under Channel 1) of externally-financed capital expenditure for each public body (and sub-agency within the body) and by economic classification. Actual expenditure is shown, not expenditure commitments, though the semi-computerised information provided by sector bureaus to BOFEDs includes expenditure commitments. A higher rating requires that commitments are reported on. IBEX is currently being rolled out to sector bureaus, thus enabling the inclusion of expenditure commitments in reports. Thus an upward pointing arrow is assigned to the C rating. | -- BOFED FAPMD staff; -- Budget performance reports. |

| Score | Minimum Requirements | Justification | Information Sources |
|-------|---|--|--|
| A | <i>(ii) Timeliness of the issue of reports</i> Reports are prepared quarterly, or more frequently, and issued within 4 weeks of the end of period. | Information provided by BOFED. Reports on regional bureau budget performance can be generated each month, within a few days of the end of the month. | -- BOFED: FAPMD staff. -- Budget Performance reports. |
| B▲ | <i>(iii) Quality of information</i> There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/usefulness. | BOFED checks the information provided by sector bureaus. Checking in principle has been made easier by the introduction of double-entry book-keeping. Nevertheless, there is potential for making mistakes, for example, in selecting the correct contra-entries, particularly in the context of semi-manual recording methods still used (as IBEX is still being rolled out to sector bureaus). BOFED discusses accuracy issues with sector bureaus and usually resolves them. With IBEX being rolled out to sector bureaus, accuracy should increase.. | -- As above. |

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ORG is rated A, B, A for the three dimensions and overall B+, but this does not seem to be correct.

3.6.4. PI-25: Quality and timeliness of annual financial statements

The dimensions to be assessed are: (i) Completeness of the financial statements; (ii) timeliness of the submission of the financial statements; and (iii) accounting standards used.

(i) Completeness of the financial statements

BOFED prepares a consolidated government financial statement annually, covering both regional bureaus and woredas. This contains mainly full information on revenues, expenditures, financial assets and liabilities, but coverage of donor-funded projects and extra-budgetary funds is not complete, particularly in the context of donor-funded funds (e.g. Global Fund) and projects that use the Channel 2 mechanism (funds by-pass BOFED and go straight to the sector bureaus) and which do not necessarily contain information on financial assets and liabilities, and also some projects that use the Channel 1 mechanism but not the budget classification system.

(ii) Timeliness of the submission of the financial statements

There used to be a 2-3 year lag between the end of the financial year and the submission of annual financial statements to ORAG, but this has been reduced to about a year; the legal deadline is 3 months after the end of the fiscal year.. The introduction of IBEX is one reason. The accounts for EFY 2001 (2008/09) were finally closed in February 2010, and the financial statements submitted to ORAG in May, 2010, eleven months after the end of the financial year. (. The financial statements cover woreda governments as well as the regional government, so preparation takes longer than it would if the statements covered only the regional government. Timeliness will strengthen further as regional bureaus are networked to the IBEX electronically, and as IBEX is rolled out to woredas (even more so, if it is rolled out using the more user-friendly and upgraded IBEX 2 currently being tested).

(iii) Accounting standards used.

The accounting standards used are those of the Federal Government, consistent with Generally Accepted Accounting Practices (GAAP). International Public Sector Accounting Standards (IPSAS) are not yet used, nor are standards used that are consistent with IPSAS on a cash basis. But IPSAS on a cash basis is not yet fully used. As noted in the PEFA Secretariat’s “Clarifications to the PFM Performance Measurement Framework, June 2005 (updated September 2008), financial information on externally-funded projects should be included in annual financial statements under IPSAS. If they are not, the statements are not compliant with IPSAS. In the case of ORG (and bureaus in other regional states), information is lacking on actual expenditure under Channel 2-type projects, even though these projects may appear in the approved budget proclamation, and even under Channel 1 projects, information on actual expenditure is not complete if the projects do not use the government’s budget classification system and therefore are not reported on and accounted for in IBEX (see narrative under D-2)

Ongoing actions and plans

A new financial statements model is being piloted by MOFED.

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ORG introduced the modified cash basis for accounting and the double entry accounting system in 2004/05 (EFY 1997). BOFED prepared the accounting manuals and training modules and distributed to sector bureaus and woredas. The new accounting system has improved the preparation of reports and closing of accounts, through less paperwork, fewer processing steps, better tracking of expenditure items, greater accuracy and ease of reconciling accounts (but note the comments under PI-24 dimension iii). IBEX has been used for the accounting function since 2006/07 (EFY 1999), with many benefits reported. Lack of ownership of IBEX, insufficient continuous training and problems in retaining trained staff are noted as significant issues.

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|--|--|--|
| C+ (M1) | | | |
| B | (i) <i>Completeness of the financial statements</i> A consolidated government statement is prepared annually. It includes, with few exceptions, full information on revenue, expenditure and financial assets/liabilities | Full information is not provided on donor-supported projects, programmes and funds, with the partial exception of those that use the Channel 1 funding modality and the government's budget classification system.. | -- BOFED FAPMD staff. |
| B | (ii) <i>Timeliness of submission of the financial statements</i> The statements are submitted for external audit within 10 months of the end of the fiscal year. | The statements for 2007/08 (EY 2000) and 2006/07 were submitted to ORAG in November 2008 and November 2007 respectively, within six months of the end of the financial year. Due to problems with IBEX, the accounts for 2008/09 were not closed until February 2010, and not submitted to ORAG until May 2010, 11 months after the end of the financial year.. On average, the submissions are within 10 months of the end of the financial year. | -- BOFED FAPMD staff. |
| C | (iii) <i>Accounting Standards used</i> Statements are presented in a consistent format over time with some disclosure of accounting standards. | The federal government standards are used, which meet Generally Accepted Accounting Practices (GAAP), which are not the same as IPSAS (required for a B rating). IPSAS on a cash basis requires information in the annual financial statements on expenditures of donor-funded projects, where these are included in the budget proclamations. However, as noted in the text above, this is not the case. | -- Ditto -- PEFA Secretariat "Clarifications to the PFM Performance Management Framework, June 2005 (updated September 2008)" -- IFAC (IPSAS on cash basis). |

Progress since 2007 Regional PEFA Assessment

An A rating is provided for all dimensions, but this seems too high.

3.7. External oversight and legislative scrutiny

This set of indicators looks at the quality and timeliness of external scrutiny of the government's budget estimates as well as the public accounts.

| No. | External Scrutiny and Audit | Score | Dimensions | Scoring Methodology |
|-------|---|-------|--------------------------------------|---------------------|
| PI-26 | Scope, nature and follow-up of external audit | C+ | (i) C (ii) A (iii) B | M1 |
| PI-27 | Legislative scrutiny of the annual budget law | D+ | (i) C (ii) C (iii) D (iv) D | M1 |
| PI-28 | Legislative scrutiny of external audit reports. | C+▲ | (i) A (ii) C▲ (iii) C▲ | M1 |

3.7.1. PI-26: The scope, nature and follow up of external audit

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Dimensions to be assessed are: (i) scope/nature of audit performed; (ii) timeliness of submission of audit reports to the legislature; and (iii) evidence of follow-up on audit recommendations.

The Office of the Regional State Auditor General (ORAG) was “re-established” in March 2005 (EFY 1997) under Proclamation No. 90/2005, consistent with Article 49(3) of the

Constitution of Oromia Region (it was originally established under a proclamation the previous year, but this was repealed under the new proclamation). Key provisions include:

- The Auditor General and Deputy Auditor General are appointed by the Regional Council (“Caffee” in Oromia language), which also approves their salaries; the term of office is six years.
- The Office and the Regional Auditor General are accountable to the Regional Council.
- Issuance of ‘certificates of competence’ of private auditors and accountants who provide auditing and accounting services to ORAG;
- Penalties for auditees who fail to provide the information required by ORAG in the course of its auditing duties; penalties are 5-7 years imprisonment or a fine of ETB 10,000 or both.

The proclamation is currently being revised in order to provide a deadline of the end of September for public bodies to close their accounts; the current proclamation does not provide time limits (except for the submission by BOFED of the consolidated annual financial statements). The draft proclamation has been submitted to the Regional Council.

ORAG has a staff of 197, of whom 118 are auditors. It is hiring 36 new graduates this year. New staff must have a diploma as a minimum, previously only a 12th grade pass was required. A new Human Resources Management Department is being planned.

ORAG considers that the planned introduction of IBEX 2 will help to strengthen reporting and accounting and thereby facilitate the audit process.

ORAG does not yet have its own website. ORAG publicises its activities to an extent through TV and radio. The language used is Oromia’s own (Orimfaa), as required by Oromia’s constitution; Orimfaa is significantly different from Amharic.

(i) Scope and nature of audit

This dimension comprises three sub-dimensions. The lowest sub-dimension score is the score for the dimension as a whole (i.e. if the lowest sub-dimension score is D, the score for the dimension is D). The sub-dimensions are: (a) extent of coverage of regional government bureaus in terms of percentage of total public expenditure; b) the nature of the audit: e.g. financial audits, compliance audits, performance audits; and (c) adherence to appropriate auditing standards (e.g. as specified by INTOSAI), including the extent of focus on systemic issues.

(a) Extent of audit coverage of regional government bureaus

The Office of the Regional Auditor General (ORAG) covers the 203 woreda governments as well as the 42 regional government bureaus (including their sub-agencies); altogether, 376 public bodies. About one quarter of these is audited every year; the larger ones, in terms of expenditure (Education, Health, Agriculture, Water, Rural Roads Authority) are audited every year. At woreda level, the Single Pool system, introduced in 2006/07 (whereby the WOFED manages the finances of the woreda sector offices) permits aggregation, so that an external audit can cover several public bodies as one aggregate body. In monetary terms, about 70

percent of domestically-financed public expenditure is being covered under the audit for 2008/09.

ORAG also audits donor-financed projects. It has the right to audit the Roads Fund and the water works enterprise, but, as provided for in the proclamation (Section 9), delegates this to private sector auditors. In addition, ORAG's scope includes private companies under contract to ORG (for contracts exceeding EB 500,000, as indicated in Article 8 in the ORAG law, but in practice this has not been exercised. The Office of the Auditor General (OFAG) at federal government level audits funds that are under the control of the federal government, notably the Food Security and Safety Net funds.

(b) Nature of Audit

The emphasis is on financial (covering revenue, expenditure, and financial assets and liabilities) and compliance audits (covering internal controls, including those for the payroll, procurement and property administration systems). ORAG is starting to conduct performance audits. It has not yet conducted any IT audits and environmental audits. If requested by the Regional Council, it will conduct special audits where legal matters are involved (e.g. covering suspected fraud).

c) Adherence to Auditing Standards

ORAG follows the audit standards of the federal level Office of the Auditor General (OFAG), which is a member of INTOSAI.

Publication of Audit Reports (INTOSAI Standard):

Publication of audit reports is not prohibited by law, but in practice no reports have been published, mainly because of resource constraints. The Regional Council can authorize publication. The BPR study, completed during 2008/09, recommended that audit reports should be published, and ORAG is accordingly preparing to publish its audit reports covering 2008/09 (probably in July 2010, after their submission to the Regional Council).

Independence of ORAG from the Executive (INTOSAI Standard)

As noted above, ORAG is accountable to the Regional Council and thus is independent in principle from ORG. This independence is compromised to some extent, however, as ORAG's budget is included in the ORG budget.

Co-operation and Public Relations

The law governing ORAG provides for the right to access to all the information required for ORAG to fulfil its responsibilities (Article 17, paragraph 12), thus meeting another INTOSAI standard.

Audit Methodology

The focus is increasingly on audit of internal control systems (as stipulated in paragraph four of Article 8 in the ORAG law on powers and duties of ORAG) as per INTOSAI/AFROSAI standards rather than of individual transactions. Payroll systems, for example, are tested on a sample basis (e.g. checking if new staff recruited according to the law, examining samples of

personnel files and attendance sheets, and checking that signature protocols are being followed); ORAG has not yet come across any instance of ghost workers. ORAG looks at internal audit department reports (PI-21) as part of its work, but does not depend on them, as the internal audit function is still developing and there are still issues concerning capacity (e.g. level of appropriate training).

(ii) Timeliness of submission of audit reports to legislature

By law, ORAG should audit the annual accounts of ONRS (i.e. regional bureaus and woreda governments) within 8 months of their submission by ORG, and then submit its opinion to BOFED (Section 17.1 of proclamation). Section 17.2 stipulates that ORAG submit an annual report on its audits of public bodies and the annual accounts to the Regional Council, but no deadline is given. In practice, the annual report is provided close to the end of each fiscal year (annual reports cover the period May-April).

The time taken to audit the annual accounts has fallen to 3-4 months in recent years. ORAG received the annual accounts for 2007/08 in late May, 2009 and completed its audit in August 2009. and the time taken to audit the annual accounts for 2008/09 (received in May 2010) should take about the same. With regard to the audit of public bodies, ORAG starts its audits in the second quarter of the fiscal year. Smaller bureaus/offices take about 10 days to audit, larger ones up to 2 months. The draft proclamation, by stipulating a deadline of end-September for the closure of accounts, would facilitate more timely audits. Every month ORAG receives copies of the budget performance reports prepared by bureaus, thereby facilitating its work. ORAG transmits copies of its audit reports to the Regional Council every quarter.

(iii) Evidence of follow up on audit recommendations

Under Section 21.3 of the proclamation governing ORAG, audited entities are obliged to take corrective measures and respond within 30 days from the date of receipt of the audit report sent to them by ORAG. ORAG first discusses its audit findings with the relevant staff of the audited organization (exit conference), who then discuss with their management. ORAG requests a written reply from management within 13 days. ORAG may then return if it has more queries, otherwise it produces its opinion and sends its report to BOFED (including the Management response), and BOFED then sends this to the Regional Council (as from this current fiscal year, to the newly formed – January 2010 -- Public Accounts Committee, in previous years to the Budget and Finance Committee). ORAG checks during the following year’s audit whether its recommendations have been implemented.

As a result of the BPR, ORAG created a new department earlier this fiscal year (2009/10) to provide more effective scrutiny of extent to which bureau/office management implements ORAG recommendations.

| Score | Minimum Requirements | Justification | Information Sources |
|--------------------------|--|---|---|
| C+ (M1) | | | |
| C | (i) <i>Scope/nature of audit performed (incl. Adherence to auditing standards).</i> ONRS entities (regional | Out of 376 regional bureaus and woreda offices in Oromia, about 90 are audited every year on a rotating basis, except for the larger bureaus (in terms of their expenditure), which are audited every year. About 70 percent of ONRS domestically | -- Auditor General, Oromia ORAG. -- Proclamation |

| Score | Minimum Requirements | Justification | Information Sources |
|-------|--|---|-----------------------------|
| | bureaus and woredas) representing at least 50 percent of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. | financed expenditure is covered each year. Full financial audits and compliance audits are conducted, broadly in compliance with INTOSAI standards (following OFAG), with the main focus on systemic issues. Audit reports are not published, in violation of one of the INTOSAI standards The limiting factor in rating this dimension is the scope of coverage, which is less than the 75 percent required for a B rating, and the non-publication of audit reports. | 90/2005 governing ORAG. |
| A | (ii) <i>Timeliness of submission of audit reports to the legislature.</i> Audit reports are submitted to the legislature within 4 months of the period covered and in the case of financial statements from their receipt by the audit office. | In the case of audit reports for each public body, ORAG starts the auditing process 3 months after the end of the fiscal year and takes up to 2 months to audit, thus five months in total from the end of the fiscal year (in relation to the last two completed fiscal years). In the case of the audit of the annual accounts, ORAG took 3-4 months to audit the 2006/07 accounts after their receipt from BOFED, and 3 months to audit the 2007/08 accounts. It expects to take about 3 months to audit the 2008/09 accounts, received from BOFED in May, 2010. Taking a simple average of the rating for the annual accounts and the audit reports as a whole, the score is A. . | -- Oromia Auditor General. |
| C | (iii) <i>Evidence of follow-up on audit recommendations</i> A formal response is made in a timely manner, but there is little evidence of systematic follow-up. | Formal responses are made in a timely manner, as required under the ORAG proclamation. The assessment team was unable to obtain a copy of ORAG's annual report, but, on the basis of the annual reports of the Amhara and SNNPR ORAGs, the formal responses tend to be provided in a timely manner, but evidence of systematic follow-up by management is limited. | -- Oromia Auditor General . |

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The ratings for dimensions (i) –(iii) are D, B and A respectively and thus an overall ranking of D+. The coverage has probably improved, partly due to the single pool system. An A rating for dimension (iii) seems too high (the report mentions that Oromia had introduced a Public Accounts Committee (PAC), thus increasing the probability of effective and timely follow-up, but the PAC was only established in January 2010). The timeliness of the audit of the annual accounts is not differentiated from the timeliness of the audit reports covering individual public bodies.

3.7.2: Legislative scrutiny of the annual budget law

The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the budget law.

Until January 2010, the Budget and Finance Committee (BFC) of the Oromia Regional Council scrutinized both the draft budget and the audit reports prepared by ORAG; the BFC was established five years ago. A Public Accounts Committee (PAC) was established in January, with the mandate to scrutinize audit reports submitted to it by ORAG, so BFC is now only responsible for scrutinizing the draft budget. The BFC has five members, of which two are full-time (Head and Vice Head); the others work on an ad-hoc basis.

(i) Scope of the Legislature’s Scrutiny

The BFC scrutinizes the draft budget proclamation submitted to it by the Regional Cabinet. As noted under PI-6, the draft proclamation contains only estimates of revenue and expenditure and subsidies to woredas.

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

The BFC's procedures are:

- The BFC starts to examine the draft budget proclamation after receiving it from the Speaker of the Regional Council, to whom it has been submitted by the Regional Cabinet; the BOFED and sector bureau managers may be invited to explain and discuss the budget.

- The Head of BFC then sends the draft budget proclamation, and BFC's comments on it, to the Coordinating Committee of the Regional Council: this committee comprises 20 members, drawn from the eight Standing Committees of the Regional Council. It is then sent to the Regional Council as a whole for approval.

To aid BFC's (and also now PAC's) analytical scrutiny of the budget and external audit reports, a number of manuals have been/are in the process of being drafted covering the different components of PFM, including one manual covering budget preparation issues.

The BFC's procedures are not always fully respected, mainly due to the difficulties in convening all its members as and when they are required. This is because they tend to work in other jobs part-time and to live elsewhere in Oromia.

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

The BFC is supposed to receive the draft budget proclamation at the end of May and then to have one month to review it, prior to the end of the fiscal year. The Regional Cabinet, however, tends to delay the submission of the draft proclamation. Over the last few years, the BFC has had only one week to review it. The BFC considers that at least 3 days is necessary and that it should take 10 days at the most to provide a comprehensive review (as the proclamation consists almost entirely of tables covering only the next fiscal year with no textual explanation, including reasons for changes from the current fiscal year, it would seem unlikely that a meaningful review could be achieved in only 10 days).

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

As per the Financial Administration Proclamation, based on the Federal Government's Financial Administration Proclamation, in-year amendments to the budget without *ex-ante* approval by the legislature are permitted for transfer within public bodies and transfers between public bodies (the latter requiring prior approval of the Regional Cabinet) that do not result in an increase in overall spending. As noted in PI-16 (iii) reallocations between public bodies during the year are extensive.

Ex-ante approval by the legislature of amendments is only required for supplementary budgets that would result in an overall spending increase. There is at most one supplementary budget a year that is presented to the Regional Council. Due to the limited number of Regional Council meetings (only 2-3 a year), the supplementary budget tends to be presented at the end of the fiscal year at the same time as the draft budget for the following year; the approval is therefore *ex-post* rather than *ex-ante*, in contravention of the Financial Administration proclamation.

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|---|--|---|
| D+ (M1) | Listed in PEFA Framework | | |
| C | (i) <i>Scope of the legislature's scrutiny</i> The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized. | The documentation submitted to Budget and Finance Committee (BFC) consists only of the detailed revenue and spending estimates for the next financial year. | -- Head, FAPMD, BOFED. -- Head and Vice Head, BFC, Oromia Regional Council. -- Budget Proclamation for 2009/2010. |
| C | (ii) <i>Extent to which the legislature's procedures are well-established and respected.</i> Some procedures exist for the legislature's budget review, but they not comprehensive and only partially respected. | The procedures are simple (as explained in the narrative). With three out of the five members of BFC appointed on an ad-hoc basis and tending to live elsewhere in Oromia Region, the procedures are only partially respected. | -- Head and Vice Head, BFC |
| D | (iii) <i>Adequacy of time for the legislature to provide a response to budget proposals.</i> The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month). | The budget calendar allows one month for the legislature to review the draft budget proclamation. However, in recent years, the Regional Cabinet has submitted the draft very late, allowing only one week for BFC to review (given that the draft proclamation is supposed to be approved prior to the end of the fiscal year). BFC says this is clearly insufficient time. | -- Chairman, BFC |
| D | (iv) <i>Rules for in-year amendments to the budget without ex-ante approval of the legislature.</i> Rules regarding in-year budget amendments may exist, but they are either very rudimentary and unclear OR they are usually not respected. | The rules are contained in the Financial Administrative Proclamation, which is based on the Federal Government equivalent. As indicated in PI-16 (iii), in-year reallocations between public bodies are permitted without <i>ex-ante</i> Regional Council approval as long as total spending does not increase. Such reallocations are extensive. <i>Ex ante</i> approval by the Regional Council is required for proposed supplementary budgets that result in increased total spending, but the approval tends to be <i>ex post</i> , at the end of the fiscal year, in apparent violation of the Financial Administration Act. Thus the requirement for <i>ex-ante</i> approval by the Regional Council is not respected. | -- Head and Vice Head, BFC. -- Financial Administration Proclamation. |

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The dimension are rated A, A, D and A (overall D+), but the evidence appears to be at variance with the evidence presented above, except for the third dimension.

3.7.3. PI-28: Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved. This indicator assesses: (i) timeliness of examination of audit reports by the legislature (for reports received within the last three years); (ii) extent of hearings on key findings undertaken by the legislature; and (iii) issuance of recommended actions by the legislature and implementation by the legislature.

As indicated under PI-27, the BFC until January, 2010 reviewed both the budget documentation and the audit reports prepared by ORAG. The Public Accounts Committee (PAC) was established in January 2010 (a BPR recommendation) and has the mandate to review audit reports. It has five members, of which the Chairman is from the ruling party and the Vice Chairman is from the opposition party. As with the BFC, the other members attend meetings on an ad-hoc basis.

(i) Timeliness of examination of audit reports

Audit reports are reviewed by BFC/PAC on a quarterly basis. ORAG also submits quarterly activity reports to BFC/PAC that provide information on what audit reports it is preparing. The annual report prepared by ORAG is presented to the Regional Council close to the end of the fiscal year.

(ii) Extent of hearings on key findings

The PAC (previously the BFC) has the power to summon government staff to answer questions related to issues raised by ORAG in its reports. This power was not exercised over the last 18 months (up to March 2010) as in previous years. . PAC, once it has organized itself, is likely to fully exercise its power to summon staff and prepare recommendations for them to implement.

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

The BFC/PAC has the power to make recommendations to bureaus and offices on the basis of the audit reports it receives. If the recommendations are not implemented then BFC/PAC has the power to take the offending bureaus/offices before the Regional Cabinet. Recommendations are prepared by BFC and the President submits these to the public bodies. In practice, as implied under dimension (ii), this power was exercised in recent times to a lesser extent than previously. The new PAC is expected to resurrect this power.

| Score | Minimum Requirements | Justification | Information Sources |
|---------------------|---|--|--|
| C+▲ (M1) | Listed in PEFA Framework | | |
| A | <i>(i) Timeliness of examination of audit reports by the legislature.</i> Scrutiny of audit reports is usually completed by the legislature within 3 months of receipt of the reports. | Audit reports are reviewed by BFC/PAC on a quarterly basis. The Regional Council reviews the annual report prepared by ORAG and submitted to it near the end of the fiscal year. | -- Head and Vice Head, BFC, Oromia Regional Council. |
| C▲ | <i>(ii) Extent of hearings on key findings undertaken by the legislature.</i> In-depth hearings on key findings take place occasionally, cover only a few audited entities and may include ministry of finance officials only. | Hearings over the 18 months up to March 2010 have been less frequent than previously. The pace and depth of these hearings is expected to pick-up under the newly-established PAC. | -- Head and Vice Head, BFC, Oromia Regional Council. |
| C▲ | <i>(iii) Issuance of recommended actions by the legislature and implementation by the executive.</i> Actions are recommended, but are rarely acted upon by the legislature. | The BFC/PAC has the power to issue recommendations and report on non-implementation of these to the Regional Cabinet. As referred to under (ii), this power was used less extensively during the 18 months up to March 2010. The extent of use of this power is expected to pick up under the newly established PAC. | -- Head and Vice Head, BFC, Oromia Regional Council. |

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ORG was rated A for all dimensions. The lessened extent of BFC scrutiny referred to under dimensions (ii) and (iii) is reflected by lower ratings in this assessment.

3.8. Donor practices

| No. | Donor Practices | Score | Dimensions | Scoring Methodology |
|-----|---|----------------|-----------------|---------------------|
| D-1 | Predictability of direct budget support | Not applicable | Not applicable | M1 |
| D-2 | Financial information provided by donors for budgeting and reporting on project and program aid | D+ | (i) C (ii) D | M1 |
| D-3 | Proportion of aid managed by use of national procedures | D | (i) D | M1 |

3.8.1. D-1: Predictability of Direct Budget Support

This indicator is not used as Oromia Region does not receive direct budget support (i.e. unearmarked funds that are deposited by donors into the Central Treasury Account and co-mingled with domestic revenues). Budget support is provided to the Federal Government and helps to finance the block grant from the Federal Government to the regional governments. One of the conditions is adequate funding of the Protection for Basic Services (PBS) programme; in effect, donors fund about one-third of PBS.

3.8.2: D-2: Financial information provided by donors for budgeting and reporting on project and programme aid

The dimensions to be assessed are: (i) completeness and timeliness of budget estimates by donors for project support; and (ii) frequency and coverage of reporting by donors on actual donor flows for budget support.

A substantial proportion of donor aid is provided to Oromia Region through Channel One, that is assistance and loans provided to MOFED, which then channels this to BOFED (but the loans are on the account of MOFED) and assistance provided directly to BOFED by donors, which BOFED then passes on to sector bureaus. The proportion is not exactly known, as BOFED has incomplete information on the amount of donor aid provided through Channel 2 (donor aid provided to sector line ministries at federal level, which then channel the funds directly to sector bureaus at regional level, plus donor aid provided directly to sector bureaus) and has even less information on donor aid provided through Channel 3 (donor aid provided directly to projects without going through sector bureaus; this includes NGO projects – though increasingly these are being reported on to BOFED) and aid-in-kind).

Guidelines for Donor Fund Coordination and Management in Oromia Region were published by ORG in 2005. The objective is to provide guidance on the regular reporting of work plans, budgets and the performance thereof. Development of work plans by bureaus, at the initial stage of budget preparation, takes into account donor plans; workshops may be held to discuss these.

The donor agencies that are known, to have significant presence in Oromia (in the form of funding of projects) are World Bank, ADB, EU, DFID, Italy, Korea and the UN executing agencies (UNICEF, WHO, UNDP and UNFPA).³⁰ Donor agencies with suspected significant presence in Oromia include USAID, JICA, GTZ and the mainly donor-supported Global Fund and Roads Fund (the Food Security and Public Safety Net Programmes, and PSCAP are

³⁰ Donor agencies also provide funding through PBS.

excluded from the analysis as they are included in the federal government budgets, with the regional government playing an implementing role)

The proportion of aid being provided under Channel 1 appears to be growing. Assistance from UN agencies (UNICEF in particular), used to be provided through Channel 2, but is now provided through Channel 1. The Budget Performance reports generated through IBEX indicate this. The approved budgets include some donor projects provided through Channel 2. The performance of these projects relative to the approved budget is, however, not captured by the budget performance reports as, being Channel 2, expenditure is not captured in IBEX and thus is not reported to BOFED. The reports for 2006/07 and 2007/08 indicate actual spending under donor projects to be much lower than that shown in the approved budget, indicating possible non-reporting. The report for 2008/09 indicates, however, expenditure significantly higher than budgeted. Table 8 summarises:

Table 8: Capital Expenditure financed by External Loans and Assistance, ONRS

| <i>ETB millions</i> | 2006/07 Budget | 2006/07 Actual | 2007/08 Budget | 2007/08 Actual | 2008/09 Budget | 2008/09 Est. Actual |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--------------------------------|
| External loans & Assistance | 153 | 1.6 | 181 | 103 | 203 | 232 |

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

The budget proclamations include estimates of external loans and assistance, financing about 4 percent of total estimated ONRS expenditure, mainly in the agriculture, water resources, education and health areas. This includes estimates of loans and assistance to be provided through Channel 2 (as reflected in Table.. above). The donor agencies mentioned in the budget proclamation (for 2009/10) are the ones referred to above. They may not be the biggest ones (as expenditures funded by USAID and Global Fund may be large but are not included in the budget proclamation and are not known). Only ABD and World Bank use the Government’s budget classification system, according to the broad economic classification categories.

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

Reporting can be provided in full in principle for projects funded through Channel 1 modalities as they can be captured in the IBEX system and therefore in the quarterly budget performance reports and monthly trial balance sheets. In practice, this does not appear to happen, except under the WASH programme, and, even then, the expenditure reports are not reflected in the overall budget performance reports. Outside WASH, the information shown to the assessment team, as reflected in the budget performance reports and end-year trial balance sheets, shows only annual actual disbursements, and then only for ADB and UNICEF.

| Score | Minimum Requirements | Justification | Information Sources |
|----------------|---|---|---|
| D+ (M1) | As listed in PEFA Framework | | |
| C | <p>(i) <i>Completeness & timeliness of budget estimates by donors for project support</i> At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior to its start. Estimates may use donor classification and not be consistent with the government's budget classification system.</p> | The budget proclamations indicate donor assistance and loans in aggregate and according to the projects they finance. They incorporate loans and assistance from the five largest donors for which information is available (it is possible that other donors, such as Global Fund, are larger, but no information is available on its planned annual expenditures). Only ADB and World Bank use the government's budget classification system. | -- 2009/10 Budget Proclamation -- Annual budget performance reports for capital expenditure funded by donor loans and assistance. -- FAPMD staff, BOFED |
| D | <p>(ii) <i>Frequency & coverage of reporting by donors on actual project flows for project support</i> Donors do not provide quarterly reports within two months of end-of-quarter on the disbursements made for at least 50 percent of the externally financed project estimates in the budget.</p> | Quarterly expenditure reports are only provided under the WASH programme. Annual expenditures under UNICEF and ADB funded projects (but not all ADB funded projects) are reflected in the end-year budget performance report and trial balance sheet. | -- Annual budget performance report for 2008/09 concerning capital expenditure financed by loans and assistance. -- End-2008/09 monthly trial balance sheet (codes 2001 and 2025 for ADB and UNICEF respectively). |

The responsibility for monitoring donor-funded projects in the Oromia BOFED is spread over a number of offices. As a result it is difficult to obtain an overall picture on the amount and type of project aid being provided. Moreover, it is incomplete, as donor-funded projects executed through the Channel 2 and Channel 3 modalities are not reported to BOFED.

In this regard, the assessment team drafted a spreadsheet format designed to provide a complete picture of donor aid flows to Oromia. This is reproduced in Annex B.

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The donor practice indicators were not covered.

3.8.3. D-3: Proportion of aid that is managed by use of national procedures

The dimension to be assessed is the overall proportion of aid funds to the regional government that are managed through national procedures (banking, authorization, procurement, accounting, audit, disbursement and reporting).

Donors providing assistance through the Channel 1 modality are increasingly using country financial management systems, though mainly only the accounting and reporting systems. The UN Executing Agencies are, however, still using their own accounting systems (they use a different COA). Donor agencies do not yet use the government's budget execution and banking systems (donor project bank accounts controlled by BOFED are not yet part of the zero balancing system, which is part and parcel of the budget execution system). Government procurement systems are coming closer to international best practice standards (BOFED considers that ORG is three quarters of the way there) though donors still mainly use their own procurement systems. Donors also tend to recruit their own external auditors, mainly

because of manpower constraints in the Office of the Regional Auditor General (ORAG) rather than capability constraints.

| Score | Minimum Requirements | Justification | Information Sources |
|-------|--|---|-----------------------|
| D | Less than 50% of aid funds to regional government are managed through national procedures. | Donor-financed projects do not generally use the Government's budget execution system, banking arrangements (project accounts are not part of the TSA), procurement systems and audit systems. Accounting and reporting systems are used, except by UN agencies, which use different COA. Even so, as not all donor projects are classified according to the Government's budget classification system (only ADB and World Bank), expenditures under donor projects can't be reported on, according to this classification. | -- BOFED FAPMD staff. |

3.9. Predictability of Transfers from Federal Government

This indicator (HLG-1) assesses the predictability of funding from the Federal Government. Most of the funding is in the form of the block grant. This is very predictable, the amount provided being virtually equal to the budgeted amount. The disbursement during the year is also very predictable, as it is provided in 12 equal monthly instalments. Other funding is in the form of assistance and loans channeled to BOFED, which then transfers the funding to sector bureaus (Channel 1 funding). This is not so predictable. Actual amounts transferred may be less than budgeted for, due to delays in disbursements by donors (perhaps because conditionalities attached to the assistance are not being met). The federal government block grant comprises 95 percent of the combined block grant and donor loan/assistance resources, so this indicator rates A.

4. Government reform process

4.1 Recent and on-going reforms

PFM reforms have been ongoing for several years under the auspices of the EMCP and PSCAP. The EMCP covers the following components: legal framework reform, procurement reform, budget reform, accounts reform, internal audit reform, cash and disbursement reform, government property administration reform, and information system reform. The reforms have focused on getting the basics right first (thus, MTEFs, programme budgeting and full accrual accounting have not yet started, and IBEX has only just been rolled out to regional bureaus), building enabling capacity and attempting to ensure that the reforms under each component move in step with each other.

Recognising that slow business and administrative processes can undermine the success of reforms, the Federal Government, followed by the regional governments, embarked on a Business Process Re-engineering (BPR) exercise three years ago, looking at all business processes. Implementation of the recommendations arising from this exercise started during 2008/09 and has continued into 2009/10. Examples of efficiency-improvement measures taken are re-organisation of bureaus in some cases and reduction of the numbers of signatures required for each process (e.g. payments approval).

4.2 Institutional factors supporting reform planning and implementation

Government leadership and ownership

The MOFED, with political support, has been in the driving seat of the PFM reform programme. Through pushing through reforms at the federal level, preparing manuals and methodological guidelines (e.g. accounting reform, cash management reform, budget preparation) and taking the lead in introducing and then strengthening the IT system in support of PFM reform, it paved the way for regions to implement the same reforms. The reforms were not introduced to all the regions at once, the generally stronger ones being the first candidates for reform. With line ministries and sector bureaus having considerable responsibilities for public expenditure and finance management, the federal government appears to have been successful in involving them in the implementation of the reform programmes and thus winning their 'buy-in'.

Technical assistance appears to have been used well by the Government in support of the reforms: for example, the preparation of the various manuals through the Decentralisation Support Activity (DSA) project during the early 2000s.

The Joint Budget and Aid Reviews have been a useful mechanism for federal and regional governments to review the reform programmes with the donor partners and to resolve any issues that have been identified.

Annex A: Calculation of Performance Indicator Two on Budget Variance

Table A1: Budgeted and Allocated Expenditure by Public Body, 2006/07, ETB

| Code | Data for 2006/07 (EFY 1999) | | | | | |
|------|--------------------------------------|---------------|---------------|---------------|-------------|--------|
| | Administrative Unit head | Budget | Actual | Difference | Absolute | % |
| 311 | Education | 306,908,581 | 344,644,106 | 37,735,525 | 37,735,525 | 12.3% |
| 341 | Health | 213,732,543 | 227,541,117 | 13,808,574 | 13,808,574 | 6.5% |
| 211 | Agriculture & Rural Development | 89,869,000 | 101,100,509 | 11,231,509 | 11,231,509 | 12.5% |
| 122 | Supreme Court | 44,335,245 | 48,003,395 | 3,668,150 | 3,668,150 | 8.3% |
| 129 | Prison Administration | 54,413,127 | 54,324,181 | (88,946) | 88,946 | 0.2% |
| 127 | Police Commission | 59,228,870 | 85,132,309 | 25,903,439 | 25,903,439 | 43.7% |
| 111 | Regional Council | 10,872,688 | 11,391,433 | 518,745 | 518,745 | 4.8% |
| 213 | Agriculture Research Institute | 29,626,353 | 27,427,418 | (2,198,935) | 2,198,935 | 7.4% |
| 221 | Water Resources Development | 125,722,784 | 109,753,646 | (15,969,138) | 15,969,138 | 12.7% |
| 273 | Rural Roads Authority | 173,027,831 | 109,309,262 | (63,718,569) | 63,718,569 | 36.8% |
| 152 | Finance & Economic Development | 32,501,158 | 30,967,345 | (1,533,813) | 1,533,813 | 4.7% |
| 153 | Information & Public Relations | 11,316,771 | 12,280,153 | 963,382 | 963,382 | 8.5% |
| 278 | Housing Development Project | 36,595,800 | 119,136,323 | 82,540,523 | 82,540,523 | 225.5% |
| 332 | Culture | 14,033,216 | 15,198,013 | 1,164,797 | 1,164,797 | 8.3% |
| 318 | Capacity Building | 37,579,363 | 38,503,477 | 924,114 | 924,114 | 2.5% |
| 231 | Trade, Industry & Urban Development | 29,614,900 | 20,035,059 | (9,579,841) | 9,579,841 | 32.3% |
| 115 | Regional State President | 39,504,149 | 46,631,267 | 7,127,118 | 7,127,118 | 18.0% |
| 156 | Revenue | 13,153,531 | 16,414,181 | 3,260,650 | 3,260,650 | 24.8% |
| 333 | Public Organisation & Social Affairs | 21,832,840 | 21,354,839 | (478,001) | 478,001 | 2.2% |
| 224 | Irrigation Development Authority | 15,833,886 | 9,638,141 | (6,195,745) | 6,195,745 | 39.1% |
| | 21 (= sum of rest) | 234,411,799 | 100,561,129 | (133,850,670) | 133,850,670 | 57.1% |
| | total expenditure | 1,594,114,435 | 1,549,347,306 | (44,767,129) | 44,767,129 | 2.8% |
| | composition variance | 1,594,114,435 | 1,549,347,306 | | 422,460,183 | 26.5% |

Table A2: Budgeted and Allocated Expenditure by Public Body, 2007/08, ETB

| Data for 2007/08 (EFY 2000) | | | | | | |
|------------------------------------|--------------------------------------|---------------|---------------|-------------------|-----------------|----------------|
| Code | Administrative Unit | budget | actual | difference | absolute | percent |
| 311 | Education | 395,673,635 | 393,087,928 | (2,585,707) | 2,585,707 | 0.7% |
| 341 | Health | 361,466,666 | 339,134,607 | (22,332,059) | 22,332,059 | 6.2% |
| 211 | Agriculture & Rural Development | 222,470,548 | 206,346,337 | (16,124,211) | 16,124,211 | 7.2% |
| 122 | Supreme Court | 80,229,474 | 66,325,647 | (13,903,827) | 13,903,827 | 17.3% |
| 129 | Prison Administration | 68,199,624 | 67,219,681 | (979,943) | 979,943 | 1.4% |
| 127 | Police Commission | 148,251,229 | 122,676,434 | (25,574,795) | 25,574,795 | 17.3% |
| 278 | Housing Development Project | 29,947,700 | 34,705,506 | 4,757,806 | 4,757,806 | 15.9% |
| 213 | Agriculture Research Institute | 47,052,890 | 39,880,332 | (7,172,558) | 7,172,558 | 15.2% |
| 221 | Water Resources Development | 191,151,021 | 189,622,630 | (1,528,391) | 1,528,391 | 0.8% |
| 273 | Rural Roads Authority | 237,376,019 | 176,250,220 | (61,125,799) | 61,125,799 | 25.8% |
| 152 | Finance & Economic Development | 44,088,677 | 38,294,137 | (5,794,540) | 5,794,540 | 13.1% |
| 154 | Oromia Mass Media Organisation | 30,459,596 | 64,496,490 | 34,036,894 | 34,036,894 | 111.7% |
| 277 | Urban Development & Work | 42,364,536 | 37,374,319 | (4,990,217) | 4,990,217 | 11.8% |
| 121 | Justice | 17,981,801 | 14,113,530 | (3,868,271) | 3,868,271 | 21.5% |
| 318 | Capacity Building | 45,000,942 | 38,605,860 | (6,395,082) | 6,395,082 | 14.2% |
| 231 | Trade, Industry & Urban Development | 35,148,320 | 20,228,821 | (14,919,499) | 14,919,499 | 42.4% |
| 115 | Regional State President | 36,360,452 | 45,643,509 | 9,283,057 | 9,283,057 | 25.5% |
| 156 | Revenue | 23,127,123 | 20,416,502 | (2,710,621) | 2,710,621 | 11.7% |
| 333 | Public Organisation & Social Affairs | 26,551,902 | 25,674,965 | (876,937) | 876,937 | 3.3% |
| 123 | Legal Research & Training Institute | 23,571,624 | 17,370,647 | (6,200,977) | 6,200,977 | 26.3% |
| | 21 (= sum of rest) | 284,387,068 | 168,125,498 | (116,261,570) | 116,261,570 | 40.9% |
| | total expenditure | 2,390,860,847 | 2,125,593,600 | (265,267,247) | 265,267,247 | 11.1% |
| | composition variance | 2,390,860,847 | 2,125,593,600 | | 361,422,761 | 15.1% |

Table A3: Budgeted and Allocated Expenditure by Public Body, 2008/09, ETB

| | Data for year = | 2008/9 (EFY 2001) | | | | |
|-----|--------------------------------------|--------------------------|---------------|---------------|-------------|---------|
| | functional head | budget | actual | difference | absolute | percent |
| 311 | Education | 334,395,027 | 327,802,937 | (6,592,090) | 6,592,090 | 2.0% |
| 341 | Health | 454,358,662 | 444,993,244 | (9,365,418) | 9,365,418 | 2.1% |
| 211 | Agriculture & Rural Development | 53,537,640 | 228,721,486 | 175,183,846 | 175,183,846 | 327.2% |
| 122 | Supreme Court | 41,000,000 | 37,934,056 | (3,065,944) | 3,065,944 | 7.5% |
| 129 | Prison Administration | 73,690,480 | 125,364,191 | 51,673,711 | 51,673,711 | 70.1% |
| 127 | Police Commission | 134,270,024 | 121,219,074 | (13,050,950) | 13,050,950 | 9.7% |
| 278 | Housing Development Project | 26,745,896 | 23,758,886 | (2,987,010) | 2,987,010 | 11.2% |
| 213 | Agriculture Research Institute | 48,280,703 | 39,857,101 | (8,423,602) | 8,423,602 | 17.4% |
| 221 | Water Resources Development | 213,677,707 | 194,764,365 | (18,913,342) | 18,913,342 | 8.9% |
| 273 | Rural Roads Authority | 297,331,752 | 224,833,436 | (72,498,316) | 72,498,316 | 24.4% |
| 152 | Finance & Economic Development | 42,924,031 | 55,930,566 | 13,006,535 | 13,006,535 | 30.3% |
| 154 | Oromia Mass Media Organisation | 61,265,666 | 51,046,866 | (10,218,800) | 10,218,800 | 16.7% |
| 277 | Urban Development & Work | 135,578,877 | 131,443,732 | (4,135,145) | 4,135,145 | 3.0% |
| 312 | Technical & Vocational Education | 194,866,382 | 180,826,490 | (14,039,892) | 14,039,892 | 7.2% |
| 318 | Capacity Building | 25,700,687 | 46,647,125 | 20,946,438 | 20,946,438 | 81.5% |
| 231 | Trade, Industry & Urban Development | 39,670,379 | 50,867,755 | 11,197,376 | 11,197,376 | 28.2% |
| 115 | Regional State President | 44,291,340 | 49,786,749 | 5,495,409 | 5,495,409 | 12.4% |
| 156 | Revenue | 24,360,433 | 24,500,064 | 139,631 | 139,631 | 0.6% |
| 333 | Public Organisation & Social Affairs | 26,791,320 | 16,456,135 | (10,335,185) | 10,335,185 | 38.6% |
| 123 | Legal Research & Training Institute | 18,720,769 | 18,604,424 | (116,345) | 116,345 | 0.6% |
| | 21 (= sum of rest) | 391,329,586 | 281,839,972 | (109,489,614) | 109,489,614 | 28.0% |
| | total expenditure | 2,682,787,361 | 2,677,198,654 | (5,588,707) | 5,588,707 | 0.2% |
| | composition variance | 2,682,787,361 | 2,677,198,654 | | 560,874,599 | 20.9% |

Oromia National Regional State: Table A4: Budgeted and Actual Revenue, ETB

| | 2006/07 | 2006/07 | % | 2007/08 | 2007/08 | % | 2008/09 | 2008/09 | % |
|---------------------------------|--------------------|--------------------|-------------|--------------------|----------------------|-------------|--------------------|----------------------|--------------|
| | Budget | Actual | Diff. | Budget | Actual | Diff. | Budget | Actual | Diff. |
| Domestic Revenue | 600,000,000 | 762,837,938 | 27.1 | 700,000,000 | 1,088,221,678 | 55.5 | 950,000,000 | 1,357,905,433 | 42.9 |
| Tax revenue | 476,628,147 | 560,805,589 | 17.7 | 565,698,147 | 806,872,544 | 42.6 | 780,858,285 | 935,390,803 | 19.8 |
| <i>Direct Taxes</i> | 446,909,604 | 519,454,802 | 16.2 | 503,554,550 | 748,144,294 | 48.6 | 737,164,372 | 864,448,858 | 17.3 |
| Income, Profit & Capital Gains | 446,909,604 | 519,454,802 | 16.2 | 503,554,550 | 748,144,294 | 48.6 | 737,164,372 | 864,448,858 | 17.3 |
| Other direct taxes | | | | | | | | | |
| <i>Indirect Taxes</i> | 29,718,543 | 41,350,787 | 39.1 | 62,143,597 | 58,728,250 | -5.5 | 43,693,913 | 70,941,945 | 62.4 |
| Excise locally made goods (Img) | 593,718 | 685,742 | 15.5 | 606,069 | 1,604,357 | 164.7 | 867,723 | 121,904 | -86 |
| Sales turnover tax on Img | 9,865,430 | 12,879,597 | 30.6 | 15,339,489 | 17,437,308 | 13.7 | 14,187,238 | 19,194,057 | 35.3 |
| Services sales tax | 5,128,741 | 20,473,590 | 299.2 | 24,566,183 | 32,197,645 | 31.1 | 23,021,274 | 41,583,110 | 80.6 |
| Other indirect taxes | 14,130,654 | 7,311,858 | -48.3 | 21,631,856 | 7,488,940 | -65.4 | 5,617,678 | 10,042,874 | 78.8 |
| | | | | | | | | | |
| Non-tax revenue | 123,371,853 | 202,032,349 | 63.8 | 134,301,853 | 281,349,134 | ### | 169,141,715 | 422,514,630 | 149.8 |
| Recurrent | 122,570,234 | 191,784,273 | 56.5 | 132,657,764 | 278,265,884 | 109.8 | 169,141,715 | 356,348,297 | 110.7 |
| Capital revenue | 801,619 | 10,248,076 | 1178.4 | 1,644,089 | 3,083,250 | 87.5 | - | 66,166,333 | #DIV/0! |

Source: IBEX Tables, BOFED

ANNEX B: Donor Loans and Assistance Template

External Assistance and Loans Template: Birrs

| A: Through Federal Government | 1999 | 1999 | 2000 | 2000 | 2001 | 2001 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| & included in budget proclamation | Bud | Act | Bud | Act | Bud | Act |
| <i>Channel One (MOFED to BOFED)</i> | | | | | | |
| World Bank | | | | | | |
| ADB | | | | | | |
| EU | | | | | | |
| Itemise others | | | | | | |
| | | | | | | |
| <i>Channel Two (sector ministry to sector bureau)</i> | | | | | | |
| Itemise donors, including donor-supported Funds | | | | | | |
| | | | | | | |
| B: Through Regional Government | | | | | | |
| & included in budget proclamation | | | | | | |
| | | | | | | |
| <i>Channel One (Donor to BOFED)</i> | | | | | | |
| UN agencies | | | | | | |
| SIDA | | | | | | |
| FINNIDA | | | | | | |
| Itemise others | | | | | | |
| | | | | | | |
| <i>Channel Two (donor to sector bureau)</i> | | | | | | |
| Itemise donors | | | | | | |
| | | | | | | |
| <i>Channel Three (donor direct to project)</i> | | | | | | |
| Itemise | | | | | | |
| C: Aid not included in budget proclamation | | | | | | |
| <i>Itemise</i> | | | | | | |

Annex C: List of People Met

Oromia Region

Ato Tolasaa Gaddafaa, Bureau, Head, BOFED.
Ato Tesfaye, Deputy Bureau Head, BOFED
Ato Elema Kampe, Head, Financial Administration and Property Management Department, (FAPMD) BOFED
Ato Thomas Deگو, Chief Accountant, FAPMD, BOFED
Ato Kumara, Legal Advisor, BOFED.
Ato Assefa Dinku, Fiscal Transfers Unit, BOFED
Ato Tesfa Kejeia, Fiscal Transfers Unit, BOFED
Ato Zelalem Bacha, Fiscal Transfers Unit, BOFED
Ato Gezu, Officer in charge of multilateral agencies, BOFED
Ato Tesfaye, Donor agency programmes (e.g. PSCAP), BOFED
Ms. Amaz, Senior Accountant for PSNP, BOFED
Ms. Meseret Chala, Senior Accountant for Food Security Programme, BOFED.
Ms. Faskika Woldu, Accountant, WaSH programme, BOFED
Ato Alemayehu Sambu Dinka, Head, NGO Affairs Department, BOFED.
Head, Revenue Bureau,
Auditor General, ORAG
Ato Fekadu Dechasa, Head, Budget and Finance Committee (BFC), Regional Council
Ato Tesfaye Dejenu, Vice Head, BFC, Regional Council
Ato Samuel Keno, Head, FAPMD, Education Bureau

All Regions

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.