PEFA

Public Expenditure and Financial Accountability

Federal Democratic Republic of Ethiopia (Federal Government)

Performance Assessment Report

Final Report

November 13, 2019

Funded by

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Public Expenditure and Financial Accountability (PEFA) assessment

Ethiopia (Federal Government)

Final report – November 13, 2019

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK'**.

PEFA Secretariat
November 15, 2019

Acronyms and abbreviations

AABE	Accounting and Auditing Board of Ethiopia
AAU	Addis Ababa University
AFROSAI-E	African Organization of English-Speaking Supreme Audit Institutions
AG	Auditor-General
ASC	Audit Services Corporation
ASYCUDA	Automated System for Customs Data
BCC	Budget Call Circular
BCG	Budgetary Central Government
BFC	Budget and Finance Committee
BI	Budget Institutions
BSC	Balanced Scorecard
CBHI	Community Based Health Insurance
CHS	College of Health Sciences
CoA	Chart of Accounts
COFOG	Classification of Functions of Government
COST	Construction Sector Transparency Initiative
CPO	Certified Payment Order
DMFAS	Debt Management and Financial Analysis System
DFID	U.K. Department for International Development
DSA	Debt Sustainability Analysis
e-GP	e-Government Procurement
EBU	Extra-budgetary Unit
EC	Ethiopian Calendar
EFY	Ethiopian Fiscal Year
EHRC	Ethiopian Human Rights Commission
EMCP	Expenditure Management and Control Program
EPSA	Ethiopian Pharmaceutical Supply Agency
ERA	Ethiopian Roads Authority
ERCA	Ethiopian Revenue and Customs Authority
ESDP	Education Sector Development Program
EU	European Union
FDI	Foreign Direct Investment
FEAC	Federal Ethics and Anti-Corruption Commission
FJAC	Federal Judiciary Administrative Council
FMHACA	Food, Medicine and Health Care Administration and Control Authority of Ethiopia
FPPA	Federal Public Procurement Agency
FY	Financial Year or Fiscal Year
GC	Gregorian Calendar
GDP	Gross Domestic Product
GEWE	Gender Equality and Women Empowerment
GFI	Global Financial Integrity
GFS	Government Finance Statistics, IMF
GRB	Gender Responsive Budgeting
GRPFM	Gender Responsive Public Financial Management
GTP I	First Growth and Transformation Plan 2010/11–2014/15
GTP II	Second Growth and Transformation Plan 2015/16–2019/20
HF	House of Federation
HMIS	Health Management Information System

HoPR	House of Peoples' Representatives
HRM	Human Resource Management
IAD	Internal Audit Department
IBEX	Integrated Budget and Expenditures
IDA	International Development Agency (World Bank)
IFF	Illicit Financial Flow
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISPPIA	International Standards for the Professional Practice of Internal Auditing
ISSAI	International Standard for Supreme Audit Institutions
IT	Information Technology
JRIS	Joint Review Implementation Support
KPI	Key Performance Indicator
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments, and Agencies
MTFF	Medium-term Fiscal Framework
METEC	Metal and Engineering Corporation
MoA	Ministry of Agriculture
MoE	Ministry of Education
MoF	Ministry of Finance and Economic Cooperation
MoH	Ministry of Health
MoR	Ministry of Revenue
MoSHE	Ministry of Science and Higher Education
MTDS	Medium-Term Debt Strategy
MTEF	Medium-Term Expenditure Framework
NBE	National Bank of Ethiopia
NA	Not Applicable
NR	Not Rated (for lack of information)
OECD	Organisation for Economic Co-operation and Development
OFAG	Office of the Federal Auditor General
ORAG	Office of the Regional Auditor General
PAC	Public Accounts Committee
PDC	Planning and Development Commission
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PFSA	Pharmaceuticals Fund and Supply Agency
PI	Performance Indicator
PIM	Public Investment Management
PMO	Project Management Office
PPPA	Public Procurement and Property Administration Agency
PPP	Public-Private Partnership
PPPDS	Public Procurement and Property Disposal Service
RBFSC	Revenue, Budget, and Finance Standing Committee
RBH	Regional Health Bureau
SAI	Supreme Audit Institution
SAO	Supreme Audit Organization
SDG	Sustainable Development Goal
SHI	Social Health Insurance

SIGTAS	Standard Integrated Government Tax Administration System
SNG	Subnational Government
SNNPR	Southern Nations Nationalities and Peoples Region
SOE	State-owned Enterprise
TAC	Tax Appeal Commission
TIN	Taxpayer Identification Number
TOR	Terms of Reference
TSA	Treasury Single Account
TTP	Tax Transformation Programme
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VAT	Value Added Tax

Fiscal year

Ethiopian fiscal year (EFY): July 8–July 7
EFY 2008, 2009, 2010 = Gregorian FY2015/2016, 2016/2017, 2017/2018 (July 1–June 30)
In this document, the term FY refers to the Gregorian fiscal year, unless described as EFY.

Currency unit = Ethiopian Birr (ETB)

US$1 = ETB 28.60 (as of February 16, 2019)

Executive summary

1. The objective of the Public Expenditure and Financial Accountability (PEFA) assessments is to review the current performance of the public financial management (PFM) systems, processes, and institutions of the Federal Government of Ethiopia. The assessment aims to assist the government in identifying PFM weaknesses that may inhibit effective delivery of services to its citizens and the realization of its development objectives in general. Furthermore, the findings of the PEFA assessment will assist the government in refining the PFM Reform Strategy that it has already developed and provide the basis for a coherent PFM reform program that can be supported by development partners, as well as through the government's own initiatives.

2. The Federal PEFA assessment covered federal government budgeted units, extra-budgetary units (EBUs), the Office of the Federal Auditor General (OFAG), and Parliament. Civil society organizations were also contacted to solicit their views on the general PFM environment, especially on issues relating to procurement and taxation. The list of stakeholders met is presented in Annex 3B.

3. The fiscal years (FYs) for the assessments are Ethiopian Calendar (EC) 2008, 2009, and 2010 (Gregorian Calendar [GC] FY2015/2016, 2016/2017, 2017/2018). The period covered for each of the 94 dimensions (summarized into 31 performance indicators [PIs]) depends on the dimension and is in accordance with the PEFA measurement framework. Some dimensions were measured at the time of assessment (November–December 2018 and February–March 2019) during the first and second field missions, respectively. The cut-off date was March 2019; the assessment reflects the status of PFM systems and processes as of that date. Other dimensions were assessed at the relevant period, which is the last completed fiscal year FY2017/2018, or FY2018/2019 for the last budget submitted to Parliament.

4. The assessment management framework, oversight, and quality assurance are summarized in Box 1.1. The assessment was funded by the World Bank, Irish Aid, the U.K. Department for International Development (DFID), the European Union (EU), United Nations Children's Fund (UNICEF), and UN Women. It was managed by the World Bank.

Impact of PFM systems on the main budgetary and fiscal outcomes

Aggregate fiscal discipline

5. The good rating of PI-1 ('A' score) provides a reasonable assurance of budget discipline at aggregate level; this was however negatively affected by budget reallocations across functional and economic classifications (PI-2 'D+') within the last three completed fiscal years largely due to some socioeconomic (drought that affected 8.5 million Ethiopians) and political instability, necessitating rapid financial response. These challenges equally affected federal government revenue targets (PI-3 'D+') especially in terms of the type of revenue generated against planned revenues. The revenue shortfalls however did not significantly affect payment of expenditure commitments (PI-22.1 'A'), indicating that the government took cognizance of its limitations in terms of revenues to spend within its available resources.

6. Another key element that affects fiscal discipline is the quantum of government resources that are outside the regular government budgeting and reporting system. Available evidence suggests that 5–10 percent of government expenditures and revenues are outside the budget and financial reports, but the government has ensured that these EBUs report on time to the central government (PI-6 'B'). In spite of this positive view, fiscal risk monitoring and reporting is weak (PI-10 'D'), thereby indicating a significant financial risk exposure for the government. The same could be said for public investment and asset management (PI-11 and PI-12, both scoring 'D+'); weaknesses in public

investment management (PIM) lead to misallocation of funds which affects fiscal discipline and asset management, indicating that the government lacks the ability to effectively monitor and safeguard its assets. Furthermore, the nonexistence of a medium-term perspective in expenditure budgeting (PI-16 'D+') limits the government's option to exercise a longer than one-year horizon for its policies and make resources available to execute those policies. That said, payroll management and control are reasonable (PI-23 'C+'), one key element that usually distorts the government budget and consequently has a negative impact on fiscal discipline; this is currently not the case.

Strategic allocation of resources

7. Strategic resource allocation is key to efficient service delivery. Macroeconomic and fiscal forecasting score well (PI-14 'B'), providing an indication of the government's intention to allocate its scarce resources for the benefit of the ordinary citizen through improved service delivery. Whereas both the budget preparation process and the legislative scrutiny and approval of the annual budget are reasonable (PI-17 'B' and PI-18 'B+'), providing reliable resource allocation for service delivery, the absence of a fiscal strategy—a policy document that outlines the government revenue and expenditure framework in terms of how it wants to generate revenue and for what expenditure—does not guarantee that the government could make resources available to fund its policies (PI-15 'D'). However, available resources are quite predictable (PI-21 'C+') for budget institutions (BIs) for the execution of their mandate.

8. The classification of the budget (PI-4 'B' good) indicates the traceability (and transparency) of government resources according to the government's programmes; also, information provided in the budget documentation available to the public is reasonable (PI-5 'C'), although this could be improved further. Comprehensive expenditure plans and approval processes are not enough to render services; these must be backed by revenue generation, monitoring, and reporting. Both revenue management and accounting show signs of credibility and reasonableness (PI-19 'C+' and PI-20 'C+') to fund government expenditure. There are, however, weaknesses in in-year reporting of budget execution; information is not readily and timely available to the public.

Efficient use of resources for service delivery

9. Primary service delivery is not a prime function of the Federal Government of Ethiopia; nonetheless, tertiary facilities such as referral hospitals, colleges, and universities provide service to the public. Also, regional governments and woredas deliver primary service on behalf of the federal government with significant funding (earmarked grants from the federal government). Tertiary institutions develop medium-term and annual strategic plans with measurable performance indicators which are published. Furthermore, 'Volume 2' of the 2018/2019 federal government budget contains information on government policy objectives, planned performance outputs, and outcomes for all sectors. This is published on the Ministry of Finance (MoF) website (PI-8.1 'A'); however, the performance outcomes and outputs are not made public to allow citizens to judge the efficiency of tertiary service delivery as well as primary service delivery by regional governments and woredas (PI-8.2 'D') even though evaluations of these performances are carried out each year. Information on resources to the regional and woreda levels where the service delivery units operate is collected and recorded by the Ministry of Health (MoH) and the Ministry of Education (MoE), disaggregated by source of funds. A report compiling the information is prepared at least annually, allowing citizens to track resource allocation. Efficient service delivery is negatively affected by the poor PIM framework (PI-11 'D+') as most of the capital investment projects that are required to improve service delivery will not be adequately funded. The assessment also shows that those projects that were funded may be poorly managed (PI-12 'D+').

10. Another fundamental element for efficient service delivery relates to effective procurement management. Available evidence shows a weak procurement complaint management mechanism in terms of its independence, lack of public access to important procurement information such as procurement plans and contract awards, and lack of comprehensive and complete procurement database—all these necessary for the private sector to adequately plan and take advantage of government procurement, thereby reducing unit cost of service delivery (PI-24 'D+'). Internal controls (PI-25 'B') provide reasonable assurance of government financial management system for improved service delivery; nonetheless, weaknesses in internal audit (PI-26 'D+', mainly due to delays referencing management response to internal audit findings) pose a threat to efficient service delivery. There is adequate segregation of duties with the financial management structure both in law and in practice (PI-27 'B'); this is key to ensure protection of scarce government resources. Whereas both external audit functions and legislative scrutiny of these reports are good (PI-30 'C+' and PI-31 'B'), the continuous infractions by public officials and failure to fully implement audit and legislative recommendations are cause for serious concern, meaning scarce resources are wasted without any punishment.

Performance changes since the last assessment in 2015

11. On the basis of the 2011 method, between the 2015 and the 2018 assessments, there have been more deteriorations in performance (7) than improvements (3), as shown in Table 0.1. Fifteen indicators have remained unvaried and six are not comparable. Annex 4 gives the details of performance change since the 2015 assessment.

Table 0.1: Changes in the ratings since 2015 using the 2011 framework

Deterioration in ratings and performance		No change		Improvement in ratings and performance	
Indicators	**Number**	**Indicators**	**Number**	**Indicators**	**Number**
PI-1, PI-2, PI-3, PI-11, PI-13, PI-20, PI-22	7	PI-4, PI-5, PI-6, PI-9, PI-10, PI-14, PI-16, PI-17, PI-18, PI-21, PI-23, PI-24, PI-25, PI-26, PI-27	15	PI-7, PI-8, PI-28	3
Not comparable					
Indicators	**Number**				
PI-12, PI-15, PI-19,D-1, D-2, D-3	6				

Fiscal discipline

12. Aggregate fiscal discipline, though satisfactory, appears to have deteriorated when compared with the 2015 performance—PI-1 from 'A' in 2015 to 'B' in 2018, mainly due to almost 12 percent and 6 percent over-budgeting of capital expenditure in 2015/2016 and 2016/2017. The economic situation in the country affected the government's ability to secure the projected loans to execute its policies, coupled with foreign currency challenges. There has been a sharp decline in performance of expenditure composition outturn (PI-2) mainly due to unutilized sector budget allocations which were reallocated as well as payments for unbudgeted customs duties for public entities' imports; that said, the federal government continues to respect the use of contingency vote (below 1 percent of budget). Likewise, revenue outturn (PI-3) has deteriorated from 'B' in 2015 to 'C' in 2018 mainly due to low domestic tax revenue collection. The stock of expenditure arrears has remained unchanged in principle except that dimension (ii) appears to have been overrated in 2015; the current situation is that data on arrears are generated annually as against quarterly, as was described in 2015. Payroll controls (PI-18) have generally remained unchanged except that there is marginal improvement in dimension (i) as a result of the link between personnel and payroll database through the Integrated Financial Management Information System (IFMIS).

Strategic allocation of resources

13. The timeliness and reliability of information on transfers to regional governments (PI-8.2) has improved from 'B' in 2015 to 'A' in 2018; nonetheless, there are significant delays in the release of actual cash to regional governments, thereby affecting primary service delivery. Resource allocation according to the originally planned government policy has been affected by the poor performance in expenditure composition outturn (PI-2) and the numerous numbers of in-year budget reallocations. There is also serious limitation on dissemination of information on resource allocation to sectors, thereby limiting transparency and accountability.

Efficient service delivery

14. Service delivery has been affected by the reallocation of sector budgets (PI-2); also, the frequency of in-year budget adjustments leaves much to be desired. Whereas there has been no change in cash management (PI-16), delays in the release of actual cash for payment of expenditure have contributed to inefficient service delivery even though primary service delivery is not the remit of the federal government. Nonetheless, some federal services such as referral hospitals and tertiary institutions have been affected. Weaknesses in public procurement remain unchanged; there are no reliable data to assess the extent to which a non-competitive procurement method is justified. Therefore, it is unclear whether services are delivered at an affordable cost.

Overview of ongoing and planned PFM reforms and main weaknesses identified

15. The Federal Government of Ethiopia is currently undertaking a PFM project with funding from the World Bank at a cost of US$33 million over a five-year period ending in April 2021, the main components of which are the following:

- Component 1: Improving Expenditure Management and Information Systems
- Component 2: Strengthening Accountability Institutions
- Component 3: Project Management, Monitoring and Evaluation

16. Major achievements in terms of the ongoing PFM reforms include the following:

- Under Component 1, the IFMIS rollout contract has been awarded and implementation is progressing steadily but with some challenges such as weak and insufficient technical capacity to provide technical support to IFMIS rollout and weak Internet connectivity. As of June 2018, IFMIS has been rolled out to 67 sites, with 47 successfully tested, and 25 out of the 47 handed over to the IFMIS Project Management Office (PMO). In all, 149 sites have been envisaged for IFMIS rollout; this means that 102 sites (149 less 47) are planned for completion by December 2019. There are plans to roll out the Integrated Budget and Expenditures (IBEX) payroll module to all woredas by December 2019. Since June 2018, around 35 more branch sites have been added under IBEX (online version) with an overall coverage of a little over 98 percent. The training and capacity building of IBEX are also progressing, with more than 150 staff trained since June 2015.
- Under Component 2, some progress has been made on e-Government Procurement (e-GP). These include the establishment of a technical committee on e-GP and the recruitment of a consultant for system upgrade based on recommendations from the technical committee. Also, 621 public servants have been trained on public procurement, including trainer-of-trainers, out of which 36 percent are female. Not much has been achieved with OFAG, except for negotiations on the terms of reference (TOR) for the recruitment of technical assistance to support and improve OFAG's operations. Also, the development of the Accounting and

Auditing Board of Ethiopia (AABE) is still in the early stages; there are vacant positions for board members, which retards the smooth implementation and approval of AABE's decisions. While there has been support to the Federal and Regional Ethics and Anti-Corruption Commissions, there is little information in terms of progress achieved, to effectively report on progress made thus far.

- Under Component 3, project management is still weak mainly due to inadequate staff to effectively provide monitoring and evaluation of the entire PFM reform program. It has therefore been recommended that additional short-term experts be recruited to fill the gap.

17. In addition to the major PFM project, a number of piecemeal parallel reforms are also ongoing, the main one includes the following:

- **DFID**'s Tax Transformation Programme (TTP) at a cost of GBP 35 million over a 4-year period starting 2019 and co-funding of the 2018 PEFA assessments.
- The **EU** is co-funding the 2018 PEFA assessments. Until now, the EU's PFM capacity development support was provided at a subnational level through its contribution to the Promoting Basic Services Multi-donor Program. In addition, the EU is increasingly using budget support for which the improvement of PFM systems is a precondition and also includes PFM disbursement-linked indicators. The EU budget support portfolio includes the following:
    - Budget Support Transport: EUR 138,000,000 + EUR 100,000,000 additional financing
    - Budget Support Health: EUR 115,000,000 + EUR 50,000,000 additional financing
    - Budget Support Jobs Compact: EUR 50,000,000
    - Budget Support in Climate Change: EUR 36,000,000
    - Finally, two PFM capacity development operations are in the pipeline:
        - EUR 2,270,000 grant to the MoF
        - EUR 10,000,000 to be formulated in 2019, expected to be operational in 2020, and covering revenue and expenditures
- **Irish Aid** is also co-funding the 2018 PEFA assessments. Irish Aid works with the Government of Ethiopia in different sectors and currently is designing its next country strategy paper.
- **UN Women.** In September 2018, UN Women funded and technically guided the study on the 'Gender Gap Analysis of the PFM System in Ethiopia' in partnership with the MoF Gender Directorate—mainly bringing out the gaps that hinder gender responsiveness of the PFM system in Ethiopia and making recommendations for further actions. It is also co-funding the 2018 PEFA assessments.
- **UNICEF** is co-funding the 2018 PEFA assessments. It also provides technical support and capacity building to the MoF on PFM studies.
- The **International Monetary Fund** (IMF) is providing technical support for the macro-fiscal forecasting for the MoF. The World Bank, DFID, and IMF are supporting the government on fiscal risk reporting, public-private partnerships (PPPs), and PIM.

18. As a medium- to long-term view, the federal government has developed a PFM Reform Strategy covering 2018–2022, linked to the national medium-term development plan Growth and Transformation Plan 2015/16–2019/20 (GTP II), with an estimated cost of ETB 5.34 billion. Though this is laudable, a number of weaknesses have been identified referencing the reform strategy. Key among them include, but are not limited to, the following:

- Exclusion of support to the external oversight functions, namely OFAG and Parliament
- Exclusion of support to revenue administration, absence of a clear sequencing and prioritization framework, and weak PFM reform monitoring framework

19. Other weaknesses identified in the entire PFM system are inadequate technical and human capacity, delays in the rollout of IFMIS and inadequate training on IFMIS, and internal control and procurement weaknesses.

Table 0.2: Overall summary of PFM performance scores

PFM PI		Scoring method	Dimension ratings				Overall rating
			i	ii	iii	iv	
Pillar I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	A				**A**
PI-2	Expenditure composition outturn	M1	D	C	A		**D+**
PI-3	Revenue outturn	M2	C	D			**D+**
Pillar II. Transparency of public finances							
PI-4	Budget classification	M1	B				**B**
PI-5	Budget documentation	M1	C				**C**
PI-6	Central government operations outside financial reports	M2	B	C	B		**B**
PI-7	Transfers to subnational governments	M2	A	A			**A**
PI-8	Performance information for service delivery	M2	A	D	A	A	**B+**
PI-9	Public access to fiscal information	M1	D				**D**
Pillar III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	D	D		**D**
PI-11	Public investment management	M2	D	C	D	C	**D+**
PI-12	Public asset management	M2	C	D	C		**D+**
PI-13	Debt management	M2	B	A	A		**A**
Pillar IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	B	A	C		**B**
PI-15	Fiscal strategy	M2	D	D	NA		**D**
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D*	B	**D+**
PI-17	Budget preparation process	M2	A	B	C		**B**
PI-18	Legislative scrutiny of budgets	M1	B	A	A	B	**B+**
Pillar V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	B	C	A	D*	**C+**
PI-20	Accounting for revenue	M1	C	B	C		**C+**
PI-21	Predictability of in-year resource allocation	M2	C	B	B	C	**C+**
PI-22	Expenditure arrears	M1	A	C			**C+**
PI-23	Payroll controls	M1	B	A	B	C	**C+**
PI-24	Procurement	M2	D	A	D	D	**D+**
PI-25	Internal controls on non-salary expenditure	M2	A	C	B		**B**
PI-26	Internal audit	M1	A	C	C	D	**D+**
Pillar VI. Accounting and reporting							
PI-27	Financial data integrity	M2	B	NA	C	B	**B**
PI-28	In-year budget reports	M1	D	D	NA		**D**
PI-29	Annual financial reports	M1	C	B	C		**C+**

PFM PI		Scoring method	Dimension ratings				Overall rating
			i	ii	iii	iv	
Pillar VII. External scrutiny and audit							
PI-30	External audit	M1	B	B	B	C	**C+**
PI-31	Legislative scrutiny of audit reports	M2	A	C	B	B	**B**

Note: NA = Not applicable.

1. Introduction

1.1 Background

1. On August 6, 2018,[1] development partners received an official request from the Ministry of Finance (MoF) to conduct Public Expenditure and Financial Accountability (PEFA) assessments for the federal government and selected regional governments and the city of Addis Ababa. It was therefore the desire of the government to measure public financial management (PFM) progress since the 2015 assessment. Based on this request, development partners agreed to provide technical and financial support for the assessment.

2. PEFA assessments at the federal and regional government levels in Ethiopia were conducted in 2007, 2010, and 2015. The assessments included the reports for the federal government, Addis Ababa City Administration, Oromia regional state, Somali regional state, Amhara regional state, Southern Nations Nationalities and Peoples Region (SNNPR) State, Tigray regional state, and Afar regional state. The regions and cities covered in the previous PEFA assessments are shown in the table below. The most recent PEFA assessment conducted was in 2015 using the 2011 assessment framework.

Table 1.1: Ethiopia's past assessments

	2007	2010	2015
Federal government	x	x	x
Addis Ababa City Administration		x	x
Afar regional state	x		x
Amhara Region		x	x
Benishagul Gumuz regional state	x	x	
Dire Dawa City Administration	x		
Gambella regional state	x		
Harari regional state	x	x	
Oromia regional state	x	x	x
SNNPR regional state		x	x
Somali regional state			x
Tigray regional state	x		x

1.2 Rationale and purpose

Overall objectives

3. The objective of the PEFA assessments is to review the current performance of the PFM systems, processes, and institutions of the federal government and selected regional states and the city of Addis Ababa since the last PEFA assessments.

Specific objectives

4. The assessments are aimed at assisting the government identify PFM weaknesses that may inhibit effective delivery of services to its citizens and the realization of its development objectives in general. Furthermore, the findings of the PEFA assessments will assist the government in refining the PFM Reform Strategy that it has already developed and provide the basis for a coherent PFM reform

[1] MoF letter reference number G/E/113/930.

program that can be supported by development partners, as well as through the government's own initiatives.

1.3 Assessment management, oversight, and quality assurance

5. Box 1.1 summarizes the assessment management, oversight, and quality assurance. The assessment was funded by the World Bank, Irish Aid, the U.K. Department for International Development (DFID), the European Union (EU), United Nations Children's Fund (UNICEF), and UN Women. It was managed by the World Bank. The task team leader was Rafika Chaouali (Lead Financial Management Specialist, Governance, World Bank), and Meron Tadesse Techane (Senior Financial Management Specialist, Governance, World Bank) provided overall and continued guidance. Finot Getachew Wondimagegnehu and Abiy Demissie Belay of the World Bank also provided administrative and technical support to the assessment team.

6. A government PEFA task force was set up to monitor the assessments and provide guidance throughout the process. The task force is led by the MoF Expenditure Management and Control Program (EMCP), which is responsible for the government PFM reforms and strategy and comprises a focused group of high-level representatives such as the Channel One Programmes Coordination Directorate; central accounts of the government; Budget and Gender Directorates of the MoF; the Office of the Federal Auditor General (OFAG); Ethiopian Revenue and Customs Authority (ERCA), now the Ministry of Revenue (MoR); the Public Accounts Committee (PAC) Secretariat; selected line ministries; and selected state-owned enterprises (SOEs), although the participation of many was very much limited. Key donors of the Task Force include the World Bank, DFID, EU, Irish Aid, UNICEF, and UN Women. A focal person, Mr. Demissu Lemma Wondemgezahu, Director of EMCP, MoF, was responsible for arranging and coordinating meetings and data gathering as well as the overall assessment implementation.

PEFA Check

7. The quality assurance framework has been reinforced as of January 1, 2018 (see PEFA Secretariat Note: PEFA Check: Quality endorsement of PEFA assessments from January 1, 2018, www.pefa.org). The quality assurance process of this report is shown in BoxBox 1.1. The first draft report was submitted for peer review on March 4, 2019.

Box 1.1: Assessment management and quality assurance arrangements

PEFA Assessment Management Organization

Oversight Team: See table below.

Assessment Manager: Demissu Lemma Wondemgezahu and Dawit Shimelis (previous and current Directors of the MoF EMCP)

Assessment Team Leader: Elena Morachiello

Assessment Team: Charles Hegbor (international consultant), Getnet Haile (local consultant), Samuel Gebremedhin (local consultant), Tafesse Freminatos (local consultant), and Fekadu Berhe (local consultant). Elisaveta Teneva (international consultant) contributed to the revision of the report from draft to final.

PEFA Secretariat

Peer reviewers (World Bank, EU, DFID, Irish Aid, UN Women)

Composition of the Oversight Team	Members of the Oversight Team
Chairperson	• State Minister, MoF
MoF	• Budget Director • Director, EMCP • Director, Treasury • Director, Budget

	• Director, Debt Management • Director, Inspectorate Directorate
OFAG	• Federal Auditor General
MoR (formerly ERCA)	• Commissioner General
Parliament	• Clerk of Parliament
Public Procurement Authority	• Director General
Development Partners	• World Bank • EU • DFID • Irish Aid • UN Women • UNICEF

Review of concept note and/or terms of reference

Federal Ministry of Finance of Ethiopia

Date of reviewed draft concept note by the PEFA Secretariat: November 13, 2018

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Review of the assessment report

Peer reviewers: Federal Government of Ethiopia, the World Bank, EU, DFID, UN Women, Irish Aid, UNICEF

PEFA Secretariat's review:

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1.4 Assessment methodology

8. The assessment applied the PEFA 2016 methodology, with seven key pillars of performance which are a prerequisite to an open, well-functioning, and orderly PFM system to achieve the government's objectives. The assessment covered budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting, and reporting, as well as external scrutiny and audit. Meetings were held with key government officials and agencies and civil society organizations, as well as development partners (refer to the list of people met: Annex 3B). The assessment reviewed and analyzed official government data; Annex 3A provides a detailed list of data used per dimension/indicator for the assessment. Also, reference was made to the 2017 Tax Administration Diagnostic Assessment Tool (TADAT) report and the International Monetary Fund (IMF) Article IV Report No. 18/18 dated January 12, 2018.

9. As required by the PEFA guidelines on tracking performance changes, the 2011 framework was used to ascertain PFM progress since the last assessment in 2015. The results of this analysis are reported in Annex 4.

Assessment coverage and timing

10. The Federal PEFA assessment covered federal government budgeted units, extra-budgetary units (EBUs), public corporations, subnational governments (SNGs) insofar as they affect the federal government assessment (PI-7), OFAG, and Parliament. The fiscal years for the assessments are EFY 2008, 2009, 2010 (Gregorian Calendar FY2015/2016, 2016/2017, 2017/2018). The last budget submitted to Parliament is the EC 2011 Budget (or Gregorian FY2018/2019 Budget).

Fieldwork

11. There were two field missions: the first in November–December 2019 and the second in February–March 2019. The first field mission began on November 19, 2018, with a kick-off meeting held at the MoF with the Oversight Team, key government officials, and development partners. A two-and-a-half day (December 3–5, 2018) PEFA training workshop was conducted at the Hilton Hotel, Addis. Officials from the PEFA Secretariat conducted the training, in which government officials from the federal, city, and regional governments participated. A high-level stakeholder meeting was conducted over half a day, to elaborate on the PEFA methodology for directors of the MoF and selected key line ministries such as Education and Health. Discussions were held to clarify certain aspects of the process such as the peer review process and the PEFA Check.

12. The larger conference and training event that lasted two days had a total of 110–115 participants, of which 5 were from the SNNPR, 4 from Harari Region, 8 from Somali Region, 3 from Gambella Region, 7 from Amhara Region, 5 from Tigray Region, 4 from Afar Region, and 3 from Benishangul Region. The remaining where from Oromia Region, the city of Addis Ababa, federal government, DFID, EU, Irish Aid, UNICEF, UN Women, and World Bank staff. Although the PEFA assessments that were conducted in 2018 and 2019 besides for the federal government were for Addis City, Tigray, Amhara, Oromia, Somali, and SNNPR, other regions attended to familiarize themselves with the new 2016 methodology in view of possible future assessments.

13. On December 6, 2018, a meeting was organized between officials from the PEFA Secretariat, the assessment team, and key stakeholders in the service delivery sector (education and health) and gender responsive budgeting (GRB), to discuss the methodology for the inclusion of some selected indicators as pilots.

14. The meetings for the federal government assessment took place between November 19 and December 15, 2018, with some meetings on service delivery taking place in February 2019 during the Addis City assessment fieldwork. Some institutions visited include the MoF, Federal MoH, Federal Ministry of Education (MoE), MoR (formerly ERCA), the Office of the Regional Auditor General (ORAG), and civil society organizations such as the Chamber of Commerce, among others. Some data collected and reviewed included budget documents, financial reports, and audit reports (external and internal). Annex 3 provides a detailed list of institutions visited and documentation used for the assessment. An aide memoire with preliminary scores and summarized preliminary findings was distributed, with a PowerPoint presentation, to the main government counterparts on December 18, 2018 (Budget Director, Accounting Director, Treasury Director, Director of Federal Public Procurement and Property Administration Authority [FPPA], and the Federal Auditor General) and World Bank staff on December 20, 2018. The cut-off date for the assessment was March 2019; the assessment thus reflects the status of PFM systems and processes as of March 2019.

Pilots: Gender responsive budgeting and service delivery

15. Two pilots were also included: (a) GRB and (b) service delivery in the health and education sectors.

The gender module

16. The PEFA gender module is a set of supplementary questions built on the PEFA framework to collect information on Gender Responsive Public Financial Management (GRPFM) practices. The questions have been designed to cover all stages of the budget cycle: policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external

scrutiny and audit, including governments' efforts to make information on fiscal performance publicly available and strengthen management of assets and liabilities.

17. The PEFA gender module is intended to be conducted on a voluntary basis. A decision to carry out a PEFA gender module will be solely at the discretion of country authorities. The findings of a GRPFM assessment will be quality reviewed by the PEFA Secretariat in a similar vein to all PEFA assessment reports.

18. The PEFA gender module was designed by the PEFA Secretariat as a response to requests that were received from groups and individuals involved in PFM and GRB reforms. A process of public consultation carried out to assess the new PEFA framework identified gender responsiveness as a gap in existing PFM diagnostic tools that needed to be addressed. Stakeholders felt that PEFA was the appropriate tool for collecting information on countries' GRB practices given its position as the most widely used framework for assessing PFM performance.

19. The PEFA gender module builds on the work of other relevant stakeholders involved in GRB. This includes UN Women that has devoted significant resources to support gender equality and women's rights through GRB. The country-specific results of the PEFA gender module are intended to be complementary and linked to the collection of information, anchored by UN Women, on GRB as part of Sustainable Development Goal (SDG) indicator 5.c.1. The indicator links the policy and legal requirements for gender equality with the resources allocated for their implementation. The PEFA gender module also builds on the work of numerous individuals involved in GRB in recent decades, as well as institutions that aim to promote its importance. These include the Organisation for Economic Co-operation and Development (OECD) analysis of GRB practices in OECD countries and the IMF's Fiscal Affairs Department's analysis of practices in G-7 countries. More information is provided in the PEFA Secretariat Note PEFA Gender Module: Draft for Public Consultation available on the PEFA Secretariat website.

20. Though a more advanced draft for the suggested set of indicators to be applied was circulated in February by the PEFA Secretariat (the indicator set is presented in the abovementioned Note), a more synthetic list of pillars, indicators, and questions to be applied to the Ethiopia Federal Government Assessment was agreed with the PEFA Secretariat at the start of the fieldwork for the Federal Government PEFA Assessment. The list is included in Table 1.2. UN Women provided support to the team for the GRB component. The detailed findings can be found in Annex 8.

Table 1.2: Applied pillars for gender-disaggregated information

No.	Pillar	Disaggregation of data required
1	*Under Pillar II: Transparency of public finances,* Indicator 9: Public access to fiscal information	Segregated data reports from the Financial Transparency and Accountability program on access to information to women information, if any; segregated data on how many women attend the open public hearings on budgets and to what extent their questions or needs were considered and addressed
2	*Under Pillar IV: Policy-based fiscal strategy and budgeting,* Indicator 15.2: Fiscal strategy adoption and Indicator 17.2: Guidance on budget preparation	Does a published fiscal strategy exist that includes quantitative fiscal goals and qualitative objectives from Gender Equality and Women Empowerment (GEWE)? Does the legal framework for public finance and budgeting include specific provisions related to gender issues or gender budgeting? Does the guidance on budget preparation request for breakdown of outputs/activities and their budgets by gender and to what extent is that complied with? Is gender equality incorporated into overall budget guidelines (budget call and budget manual) and directives instructions from the MoF?

No.	Pillar	Disaggregation of data required
		Do implementing entities prepare their annual action plan and budget report according to the guidance provided on gender segregation? Integrated and reflected gender equality and equity government commitments on a budget speech
3	*Under the same pillar (that is, Pillar IV),* Indicator 18: Legislative Scrutiny of budgets, Dimension 18.1: Scope of budget scrutiny	Does the scope of budget scrutiny include the budget allocated for gender? To what extent are the Women, Children, and Youth Standing Committees in parliaments and regional councils involved in analyzing the budget from a gender perspective? To what extent are their feedback considered in revision of draft plans and budget?
4	*Under Pillar VI: External Scrutiny and Audit,* Indicator 30: External Audit, Dimension 30.1: Audit coverage and standards	Are gender-based performance audits conducted? If yes, for which sectors were they conducted and how were the findings used to strengthen programs of sectors?

Service delivery

21. The initial scope for the service delivery pilot work, discussed and agreed with the PEFA Secretariat, was consequently expanded to assess the indicators listed in Table 1.3 in the health and education sectors. The approach employed for the expanded scope has been discussed and agreed with the World Bank Task Team.

22. The PEFA framework has been applied to review the PFM processes with implication to service delivery units in health and education sectors at the federal government level. The scope of the Service Delivery assessment is focused on the financial operations of the health and education sectors (schools and health centers) and the related oversight and accountability institutions (bureaus and external audit). The Service Delivery Module (see Annex 7) presents facts relevant for the frontline service delivery units by PEFA performance indicator (PI) and draws conclusions by PEFA pillar.

Table 1.3: Service delivery indicators

Ethiopia PEFA Addis City Assessment 2018 Module for service delivery in health and education
Indicator
HLG - Transfer from higher level government
Pillar I. Budget reliability
PI-1 Aggregate expenditure outturn
PI-2 Expenditure composition outturn
Pillar II. Transparency of public finances
PI-6 Central government operations outside financial reports
PI-7 Transfers to subnational governments
PI-8 Performance information for service delivery
PI-9 Public access to fiscal information
Pillar III. Management of assets and liabilities
PI-11 Public investment management
PI-12.2 Nonfinancial asset monitoring
Pillar IV. Policy-based fiscal strategy and budgeting
PI-16.2 and PI-16.3 Medium-term perspective in expenditure budgeting
PI-I7. Budget preparation process

Ethiopia PEFA Addis City Assessment 2018 Module for service delivery in health and education
Pillar V. Predictability and control in budget execution
PI-21.3 Information on commitment ceilings
PI-22 Expenditure arrears
PI-23.4 Payroll audit
PI-24.1 and PI-24.2 Procurement
PI-25 Internal controls on non-salary expenditure
PI-26 Internal audit
Pillar VI. Accounting and reporting
PI-29 Annual financial reports
Pillar VII. External scrutiny and audit
PI-30 External audit

2. Country background information

23. The following paragraphs outline the country economic context with key fiscal performance indicators.

2.1 Country context

24. Ethiopia is a rapidly changing country with a total population of 94.351 million, growing at 2.32 percent per year (FY2017 estimate) and the second most populous country in Sub-Saharan Africa. Ethiopia is a land-locked country and has an area of 1.1 million km^2. The country's democracy has set up a federal structure devolving powers and mandates to regional states.

2.2 Country economic situation

25. Ethiopia has registered an annual average growth rate of 10.1 percent in the first Growth and Transformation Plan (GTP I) period FY2010–2014/15. The double-digit economic growth averaging 10.5 percent observed for the last 15 years was not only high and sustainable but inclusive with a significant decline in poverty incidence from 44.2 percent in FY2000 to 23.5 percent in FY2016. The trend of GTP I continued in the second Growth and Transformation Plan (GTP II) period (FY2015/16–2019/20) even in the midst of slow global financial and economic development, resulting in low commodity prices and demand, and the impact of 'El Niño' induced drought and political instability slowed down the economy. In this regard, the economy continued to register impressive growth during the first two years of GTP II (FY2015/16–2016/17).

26. The prudent fiscal policy pursued by the government stands out among the critical policy and strategy anchors that contributed to the country's impressive economic growth. Although most of the macroeconomic and sectoral developments accounted for the sustainable and inclusive growth realized over the past decade, some vital economic dynamics such as inflation, domestic revenue mobilization, and export performance were not supportive.

27. The strong economic growth during the past years would hint at a further reduction in poverty. Life expectancy rose from 52 to 65 years during FY2015/2016 and there were sizable improvements in many of the human development indicators. Fertility rates have fallen while life expectancy has continued to rise. The current fertility rate of 4.6 children per woman is down from approximately 7 children per woman; population growth rates are down from 3.1 percent to 2.5 percent in the current period and are projected to reach 1.3 percent by FY2045–2050 (World Bank 2017, the World Bank Country Partnership Framework for Ethiopia 2018–2022).

28. In FY2016/2017, gross domestic product (GDP) at current prices had reached ETB 1,807 trillion, registering an annual growth rate of 17.2 percent. As a result, per capita income reached US$863, up from US$801 in FY2015/2016, indicating that Ethiopia's vision of becoming a lower-middle-income country by FY2025 is within reach with per capita income targeted to be US$1,025.

29. With regard to external debt, the government opted to finance its fiscal deficit from external sources on concessional terms. In particular, the Government of Ethiopia finances its budget by accessing external loans on concessional terms. As a rule of thumb, non-concessional loans cannot be used to finance the budgetary activities. On the other hand, external non-concessional loans are used to finance projects that are run by SOEs.

30. Recognizing the impact of the debt burden on future generations and the responsibility of each citizen, any single loan is subject to the approval and oversight of the Ethiopian Peoples'

Representative Council (Parliament). Each loan is realized through efficient and effective project preparation and oversight implementation, monitoring, and evaluation mechanism.

2.3 Key aspects of the government's economic and fiscal reforms

31. The government borrows to finance projects that help boost exports, builds assets, reduce poverty, and enhance social infrastructure development. The overall debt management is guided by a medium-term strategy. The IMF, jointly with the World Bank, conducts the Debt Sustainability Analysis (DSA) using data provided by the government. The findings of the DSA are discussed with the government. The Government of Ethiopia has decided to limit non-concessional borrowing and postpone new public investment projects in light of the debt challenge.

32. Currently, the government has opened the institutional space to political opposition, signed a peace agreement with Eritrea, and has announced its intention to open key economic sectors to domestic and foreign private investment and competition. The government has streamlined and reshuffled the cabinet—including replacing the Minister of Finance and the National Bank of Ethiopia (NBE) Governor. Half of the new cabinet are women—including in key positions such as domestic security (Ministry for Peace), and crucial economic policy ministries—epitomizing the authorities' commitment to foster gender equality. The authorities have expressed an intention to privatize minority stakes in the main SOEs and possibly fully privatize others, roll out the recently enacted public-private partnership (PPP) framework in energy generation and other sectors, and allow private operators and foreign direct investment (FDI) in currently closed activities—first steps have already been taken in logistics and other sectors. The authorities also indicated, however, that this process may take time, as it entails broad-ranging changes in sectoral strategies, legislation, and institutional reforms.

2.4 Key economic indicators

Table 2.1: Selected economic and financial indicators (%, unless otherwise indicated)

Indicators	2015/2016	2016/2017	2017/2018
GDP (ETB, billions)	1,541	1,807	2,138
GDP per capita (currency units)	794	801	863
Real GDP growth (%)	8.0	10.0	10.0
Consumer Performance Index (annual average change) (%)	9.7	7.3	13.0
Gross government debt (% of GDP)	54.4	57.2	61.8
External terms of trade (annual percentage change)	−19.0	−16.0	−15.2
Current account balance in % of GDP	−9.0	−8.1	−6.4
Total external debt in % of GDP	29.7	29.4	32.3
Gross official reserves (months of import value in US$)	3,402	3,197	2,847

Source: IMF 2018 Article IV consultation with the Federal Democratic Republic of Ethiopia Press Release No. 18/452, December 3, 2018.

2.5 Fiscal and budgetary trends

2.6.1 Fiscal performance

33. According to the official data, the federal government's fiscal deficit has shown an increasing trend, and this is demonstrated by an increase to 3.3 percent of GDP in FY2016/2017, compared to the level of FY2015/2016 (2.3 percent of GDP). Revenue decreased as percentage of GDP mainly due to the slow pace of tax reforms. The federal government fiscal deficit was financed through external—mainly concessional—financing and domestic financing with large repayments of cash balances and

residuals. The 2018 IMF Debt Sustainability Analysis maintained that Ethiopia remains at 'high risk' of external debt distress, as was the case in the 2017 assessment.

Table 2.2: Aggregate fiscal data - Federal government budget outcomes FY2015/2016–2017/2018

Indicators	2015/2016		2016/2017		2017/2018 (IMF staff estimate)	
	ETB	% of GDP	ETB	% of GDP	ETB	% of GDP
Total revenue	244.8	15.0	270.20	14.3	292.26	12.8
• Own revenue	231.8	12.4	257.70	11.6	274.27	11.1
• Grants	13.0	0.8	12.5	0.7	17.99	0.8
Total expenditure	280.893	18.2	329.66	18.2	372.00	17.4
• Noninterest expenditure	273.66	15.9	321.18	14.9	360.43	13.7
• Interest expenditure	7.23	2.3	8.48	3.3	11.57	3.7
Aggregate deficit (including grants)	36.07	3.2	59.44	4.0	68.17	4.6
Primary deficit	49.09	2.3	71.9	3.3	56.60	3.7
Net financing						
• External	26.04	1.7	28.95	1.6	28.36	1.3
• Domestic	31.40	2.0	33.30	1.8	59.60	2.8

Source: IMF country report No. 18/354, December 2018.

Allocation of resources

34. The government is dedicating a high share of its budget to pro-poor programs and investments. This is demonstrated by the reorientation of expenditure from recurrent to capital and significant decentralization of resources from the federal government to the regions. The major expenditure of the government is general purpose grant (also known as subsidy) to the regions, which represents about 40 percent of the total expenditure for the past three years (EFY 2008-2010). The government focus on spending in pro-poor sectors, particularly health and social and investment, specifically in education and urban development is demonstrated in Table 2.3.

Table 2.3: Budget allocation by function - Actual expenditure by functional classification as percentage of total expenditure FY2015/2016–2017/2018

Indicators	2015/2016	2016/2017	2017/2018
Organ of state	0.94	1.07	0.92
Justice and security	2.30	2.11	2.24
Defence	4.08	4.28	4.32
General service	2.51	2.79	5.86
Agriculture and natural resources	6.73	7.63	6.10
Water resource and energy	3.40	2.99	2.78
Trade and industry	0.29	0.36	0.31
Mines	0.08	0.09	0.04
Transport and communication	0.32	0.32	0.30
Urban development and construction	11.84	10.47	9.31
Education	15.22	16.07	15.62
Culture and sport	0.42	0.39	0.55
Health	3.77	2.90	4.54
Labor and social affairs	0.04	0.04	0.03

Indicators	2015/2016	2016/2017	2017/2018
Prevention and rehabilitation	8.30	4.35	5.23
Subsidy to regions	37.68	40.94	40.77
Other	1.50	3.20	1.08
Total	100.00	100.00	100.00

Source: MoF Accounts Directorate.

Table 2.4: Budget allocation by economic classification - Actual budgetary allocations by economic classification (as percentage of total expenditure)

Particulars	2015/2016	2016/2017	2017/2018
Current expenditures	74.55	77.17	77.52
Wages and salary	10.39	12.27	11.95
Goods and services	16.80	11.98	13.39
Interest	3.12	3.17	3.60
Grants (subsidy to regions)	35.57	39.63	39.07
Social benefits	5.92	9.18	7.82
Others (unclassified)	1.56	0.73	1.39
Other grants	0.18	0.21	0.29
Capital expenditure	25.45	22.83	22.48

Source: MoF Accounts Directorate.

2.6 Legal and regulatory arrangements for PFM

35. Ethiopia has established a strong legal framework with the aim of managing public resources efficiently and effectively. Legislative acts are termed proclamations. The Constitution of the Federal Democratic Republic of Ethiopia Proclamation No. 1/1995 stipulated the establishment of a federal democratic state structure with a parliamentarian form of government. The Federal Democratic Republic of Ethiopia comprises the federal government and the state members. The federal government and the states shall have legislative, executive, and judicial powers. At the federal level there are two houses: the House of Peoples' Representatives (HoPR) and the House of Federation (HF). In Ethiopia, the HoPR is the highest authority of the federal government. The HoPR is responsible to the people. The state council is the highest organ of state authority. The Constitution provides details of responsibilities of the federal government and the regional governments. The President of the Federal Democratic Republic of Ethiopia is the Head of State. The highest executive powers of the federal government are vested in the Prime Minister and in the Council of Ministers. The Prime Minister and the Council of Ministers are responsible to the HoPR. In the exercise of state functions, members of the Council of Ministers are collectively responsible for all decisions they make as a body.

36. The main laws guiding the PFM framework are the following:

- Financial Administration Proclamation No. 648/2009 and Financial Administration (Amendment) Proclamation No. 970/2016, which specify provisions relating to financial responsibility, including responsibilities of heads of public bodies and the internal auditor, collection and deposit of public money, budget including approval and notification, transfers and Macroeconomic and Fiscal Framework, disbursement of public money including cash flow forecast and disbursement limit, public debt and loan granted by the government, public accounts, and federal and regional financial relations;
- Proclamation No. 979/2016 Federal Income Tax-proclamation, which provides the legislative policy and administrative basis for taxation

- Procurement and Property Administration Proclamation No. 649/2009, which guides approval of procurement activities determining procedures of public procurement and establishing the Federal Public Procurement and Property Administration Agency (FPPA);
- Proclamation establishing the Office of the Federal Auditor General No. 68/1997, which establishes the legislative basis and role of the Supreme Audit Organization (SAO).
- Proclamation on the definition of power and duties of the executive organs (04/1995)
- Proclamation on the establishment of Ethics and Anti-Corruption Commission (235-2001) and Proclamation No. 883/2015 Revised Federal Ethics and Anti-Corruption

37. These key proclamations and regulations by the Council of Ministers and the MoF have been established to maintain internal control, internal audit, and a system of Financial Controllers in budgetary units. The PFM Law mandates the establishment of Internal Audit Departments (IADs) in all public bodies. In addition, control in procurement is through the provisions of the Procurement Law and centralization of procurement functions with the FPPA. OFAG, that is, the SAO conducts external audit as mandated by its law.

2.7 Institutional arrangements for PFM

38. Ethiopia's current Constitution, adopted in 1994, established a federal system of government and includes a legal framework to establish a decentralized PFM system. It separates the legislative, executive, and judicial powers. Ethiopia is a federal parliamentary republic with an executive power vested in the Council of Ministers headed by the Prime Minister. The federal Constitution provides for a four-tier decentralization framework consisting of regions (or states), zones (cluster of districts), woredas (or districts), and kebeles (wards or neighbourhoods). That said, levels of government with budget powers are federal, regions, and woredas, except in the SNNPR where zones have executive, council, and budget powers. Kebeles do not have their own budget. Ethiopia has nine regions—Oromia, Amhara, SNNPR, Tigray, Somalia, Afar, Benishangul-Gumuz, Gambella, and Harari—and the two municipal cities (city administrations) of Addis Ababa and Dire Dawa. Under the Constitution, the regions have extensive economic autonomy and judicial powers. Regions have their own parliament, executive body, and judiciary.

39. EBUs in Ethiopia are generally statutory, each established by law. They have different sources of income as stipulated by law. Some of them have additional budget from the central government (for example, the Road Fund). To the extent of the subsidy (transfer) they receive from the central government, they report and fully comply with all applicable PFM rules and regulations (internal control, internal audit, OFAG's audit, payroll, procurement, and so on). The fund they receive from other sources (which is not part of the central government budget) is subject to audit annually by external auditors (delegated by OFAG). EBUs are administered by their own boards assigned by the government. Their annual performance is subject to scrutiny by Parliament when the relevant ministries deliver their annual report to Parliament. All SOEs (public corporations) are operating purely as businesses and they charge market prices for the service or goods they deliver and do not receive subsidies from the government; hence, they do not qualify as EBUs.

Tables 2.5, 2.6, and 2.7 outline the structure of the public sector and central government operations in Ethiopia.

Table 2.5: Structure of the public sector (number of entities and financial turnover)

2017/2018	Public sector				
	Government subsector		Social security funds	Public corporation subsector	
	Budgetary unit	EBUs[2]		Nonfinancial public corporations	Financial public corporation
Central	189	4	—	56	No data
1st tier subnational (regions)	11	No consolidated data	NA	No consolidated data	No consolidated data
2nd tier subnational (zones)	85	NA	NA	NA	NA
3nd tier subnational (woreda)	800	NA	NA	NA	NA
4th tier subnational (kebele)	15,000	NA	NA	NA	NA

Source: MoF Accounts Directorate.
Note: NA = Not applicable.

Table 2.6: Financial structure of central government - Budget estimates (ETB, millions)

2017/2018	Central government			
	Budgetary unit	EBUs	Social security funds	Total aggregated
Revenue	238,246	14,546	22.00	252,814.00
Expenditure	315,887	13,776	6.27	329,669.27

Source: MoF Accounts Directorate.

Table 2.7: Financial structure of central government - Actual expenditure (ETB, millions)

2017/2018	Central government			
	Budgetary unit	EBUs	Social security funds	Total aggregated
Revenue	223,407	14,568	No data	237,975
Expenditure	312,509	13,783	No data	326,292
Transfers to (−) and from (+) other units of general government	−186,505	No data	No data	−186,505
Liabilities	317,257	No data	No data	317,257
Financial assets	110,969	No data	No data	110,969
Nonfinancial assets	No data	No data	No data	No data

Source: MoF Accounts Directorate.

40. The legislative organ is composed of two houses: the HF and the HoPR. Both houses are elected for five-year terms. Parliament serves as the primary mechanism for accountability and is responsible for approving the federal budget, including subsidies to regions, which is presented to Parliament by the Council of Ministers. The HoPR has 547 members, elected in single-seat constituencies, all of whom, at the time of the assessment, were from the ruling party and its allies. The HF is composed of 110 representatives of nations, nationalities, and peoples, who are elected by the states. Each nation, nationality, and peoples are represented by at least one member. The HF is empowered to determine the division of revenues derived from the joint federal state tax sources and federal subsidies to be provided to states.

41. The HoPR approves members of the Prime Minister's cabinet. The Prime Minister and the Council of Ministers are directly accountable to the HoPR. At the time of the assessment, the cabinet

[2] EBUs are defined in accordance with the IMF Government Finance Statistics (GFS) 2014 definition, which is also reported in the Field-Guide page 46, clarifications 6.1, 6.2, and 6.3. Please see more ample definition under PI-6.

comprised 20 members. The Prime Minister ensures the implementation of the laws, policies, directives, and decisions adopted by the HoPR.

42. The President is nominated by members of the HoPR and is elected by a joint session of the HoPR and HF for a six-year term. One President can be elected for a maximum of two terms. The Constitution provides for a three-tier federal and state court system. At the federal level, the court system comprises the Federal First Instance Courts, Federal High Courts, and the Federal Supreme Court. This structure is replicated at the state or regional level. The Prime Minister proposes, to the HoPR, nominees for the President and Vice President of the Federal Supreme Court. The remaining judges are appointed by the HoPR from among the nominees presented by the Federal Judicial Administrative Council (FJAC).

43. The Federal Financial Administration Proclamation No. 648/2009 empowers the MoF with the responsibility for the federal government budgeting, accounting, internal audit of public bodies, and harmonization of fiscal relations between the federal government and the regions. The public bodies are responsible for managing the budgets allocated to their sectors. Taxes and duties are collected by the ERCA, now known as the MoR (since FY2017/2018). All receipts and payments flow through a Single Treasury Account (yet to be fully operational), with few exceptions, mainly for donor projects. Payroll and procurement are decentralized to the budget institutions (BIs). Procurement is regulated and supervised by the FPPA. Internal audit units are established in all BIs and report to the heads of the institutions and are supervised by an Inspection Directorate in the MoF. Independent external audit is provided by OFAG, which reports to Parliament.

2.8 Other important features of PFM and its operating environment

44. Ethiopia’s PFM system has a clear legal framework and provides the responsibility of financial planning, budget preparation, execution, and control of the federal government to the MoF. The PFM is decentralized where regions are given full responsibility for managing their own financial activities and the federal government allocates block grants to regions. Each BI is responsible for the management of its finances and ensuring that all revenue and expenditure is received and paid in accordance with the relevant proclamations and government directives. There are some EBUs under different institutions; however, they report directly to the respective institutions and the MoF does not consistently receive their reports. Hence, no consolidation of fiscal risk is performed. Two financial management systems, Integrated Financial Management Information System (IFMIS) and Integrated Budget and Expenditure System (IBEX), are used in parallel. Currently 67 BIs are using IFMIS while the remaining 145 are using IBEX. The MoF is planning to roll out IFMIS to 23 more BIs by the end of the first quarter of 2019. Financial reports are submitted to the MoF for consolidation into national accounts. The country’s PFM laws and procedures make provision for private sector participation, especially in terms of public consultation during budget preparation and social accountability at public forums. The IFMIS rollout, though seen as an improvement over IBEX, poses some serious challenges, key among them huge training/capacity burden at lower levels, poor Internet connectivity, and compatibility issues between the two systems (that is, IBEX and IFMIS) in terms of data accuracy.

3. Assessment of PFM performance

PILLAR I. Budget reliability

PI-1 Aggregate expenditure outturn

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-1 Aggregate expenditure outturn	**A**	**Scoring method M1**
PI-1 Aggregate expenditure outturn	A	Aggregate expenditure outturn was between 95% and 105% in at least two of the last three years (105.7% in 2015/2016, 101% in 2016/2017, and 98.9% in 2017/2018)

45. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator.

46. On aggregate, the credibility of the budget is satisfactory. As shown in Table 3.1, the total expenditure outturn was 105.7 percent in 2015/2016, 101 percent in 2016/2017, and 98.9 percent in 2017/2018. The largest variances were in 2015/2016 (EFY 2008). Though recurrent expenditure in 2015/2016 didn't vary significantly from budget, capital expenditure was 12 % over budget, funded mainly from external assistance and borrowing. (The calculations upon which the table is based are reported in Annex 5.)

Table 3.1: Comparison of budgeted expenditure against actual outturn

	2015/2016 ETB, millions	2016/2017 ETB, millions	2017/2018 ETB, millions
Original budget	219,937	270,251	315,887
Actual outturn	232,381	273,024	312,509
Actual outturn %	105.7	101	98.9

Source: MoF 2015/2016 and 2016/2017 audited accounts and 2017/2018 draft accounts.

Dimension score = A

PI-2 Expenditure composition outturn

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-2 Expenditure composition outturn	**D+**	**Scoring method M1**
PI-2.1 Expenditure composition outturn by function	D	Expenditure composition variance by function for the last three years was more than 15% (25.9% in 2015/2016, 25.1% in 2016/2017, and 23.3% in 2017/2018).
PI-2.2 Expenditure composition outturn by economic type	C	Expenditure composition variance by economic type was less than 15% in two of the last three years (12.2% in 2015/2016, 18.6% in 2016/2017, and 7.2% in 2017/2018).

Indicator/Dimension	Score 2018	Justification for 2018 score
2.3 Expenditure from contingency reserves	A	Average expenditure charged to contingency reserves for the last three years averaged 0.04% of the total expenditure.

47. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Variations in expenditure composition may indicate an inability to spend resources in accordance with the government's plans, as expressed in the originally approved budget.

PI-2.1 Expenditure composition outturn by function

48. The functional resource allocation appears to be weak as evidenced by Table 3.3. The functional composition variance for the last three years was 25.9 percent in 2015/2016, 25.1 percent in 2016/2017, and 23.3 percent in 2017/2018 (excluding contingency and interest). This result was mainly due to non-utilization of allocated budget and unbudgeted customs payments on goods imported by different public bodies through assistance and borrowing. Other factors such as drought which affected about 8.5 million Ethiopians and the political instability in the country led to some major shifts in budget allocations to deal with the challenges. According to Financial Administration Proclamation No. 648/2009, budget transfers from capital to recurrent budget are not allowed and the MoF is empowered to approve all transfers; however, it can delegate public bodies to make transfers. The budget administration directive provides guidance about the procedures to use when making budget transfers. However, the lack of restriction or limit on transfers to be made within a year could make BIs reluctant to properly plan, knowing that they can make budgeted adjustments during execution.

Dimension score = D

PI-2.2 Expenditure composition outturn by economic type

49. The economic composition variance for the last three years was 12.2 percent in 2015/2016, 18.6 percent in 2016/2017, and 7.2 percent in 2017/2018 (including interest on debt but excluding contingency items) as shown in Table 3.2. While budget reallocations are high with respect to economic classification, they are not as huge as functional reallocations. That said, these reallocations could have a negative impact on efficient delivery since originally budgeted resources could be reassigned to other sectors considered important but not within the original government priorities.

Dimension score = C

PI-2.3 Expenditure from contingency reserves

50. The actual average expenditure charged to contingency reserves for the last three years averaged 0.04 percent of the total expenditure. According to Financial Administration Proclamation No. 648/2009, payments from contingency budget are approved by the MoF and should be used to meet emergency payments only; however, the law does not state the limit on contingency vote as a percentage of total expenditure. The federal government has always respected the use of contingency, as evidenced by the calculations in Table 3.3, not exceeding the dictates of the law. Good practice suggests a 3 percent maximum contingency vote in relation to total government expenditure, and at 0.04 percent, it reflects good budgeting, but the weakness is seen in budget reallocations across sectors as well as economic classifications.

Dimension score = A

Table 3.2: Result Matrix PI-2 - Composition variance by economic classification (%)

Year	Total expenditure deviation (Less contingency)	Composition variance by economic classification
2015/2016	105.7	12.2
2016/2017	101	18.6
2017/2018	98.9	7.2

Source: MoF 2015/2016 and 2016/2017 audited accounts and 2017/2018 draft accounts.

Table 3.3: Result Matrix PI-2.1 and PI-2.3 - Composition variance by functional classification and contingency (%)

Year	for PI-1	for PI-2 (i)	for PI-2 (iii)
	Total expenditure deviation	Composition variance by function	Contingency share
2015/2016	105.7	25.1	0.04
2016/2017	101.0	25.1	
2017/2018	98.9	23.3	

Source: MoF 2015/2016 and 2016/2017 audited accounts and 2017/2018 draft accounts.

PI-3 Revenue outturn

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-3 Revenue outturn	**D+**	**Scoring method M2**
PI-3.1 Aggregate revenue outturn	C	Actual total revenue outturn for at least two of the last three years falls in the range of 92% to 116% (102.9% in 2015/2016, 93.7% in 2016/2017, and 93.8 in 2017/2018).
PI-3.2 Revenue composition outturn	D	Revenue composition variance for all three years was more than 15% (21.1% in 2015/2016, 23.2% in 2016/2017, and 21.4% in 2017/2018).

51. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. Accurate revenue forecasts are a key input to the preparation of a credible budget.

PI-3.1 Aggregate revenue outturn

52. The major sources of revenue are taxes and duties on domestic revenue and foreign trade, investment income, external assistance, and privatization proceeds. On average, tax revenue accounted for 72 percent of the total federal government revenue (tax, nontax, and donor grants) for the three years under review. Revenue forecast is done by the Fiscal Policy Directorate of the MoF with input received from the Tax Policy Directorate of the MoF and the ERCA's (now known as the MoR) forecast. It is a five-year rolling forecast and performed using Microsoft Excel. The MoR has no incentive to underestimate revenues so that when MoR exceed their target, they receive bonuses. Therefore, any issues about forecasting are purely technical. As shown in Table 3.4, the actual revenue outturn was 102.9 percent in 2015/2016, 93.7 percent in 2016/2017, and 93.8 percent in 2017/2018. (The calculations upon which the table is based are reported in Annex 5.) The domestic tax revenue collection has been below target for all the three years though the deficit was made up by external assistance above the target in 2015/2016. The major reasons for low collection of domestic revenue were weak economic performance and shortage of foreign currency leading to low foreign trade. Other major factors that led to low tax collections include weak tax enforcement, insufficient skills in

tax administration, reported illicit trade and porous borders, and lack of proper institutional arrangements in tax administration.

Dimension score = C

Table 3.4: Comparison of budgeted revenue against actual outturn

	2015/2016 ETB, millions	2016/2017 ETB, millions	2017/2018 ETB, millions
Original budget	171,136	214,116	238,246
Actual outturn	176,140	200,729	223,407
Actual outturn %	102.9	93.7	93.8

Source: MoF 2015/2016 and 2016/2017 audited accounts and 2017/2018 draft accounts.

PI-3.2 Revenue composition outturn

53. The revenue composition variance for the last three years was 21.1 percent in 2015/2016, 23.2 percent in 2016/2017, and 21.4 percent in 2017/2018. This indicates that the variance for all three years was more than 15 percent, resulting in a score of D. Revenue composition was significantly affected in all the three years as a result of decrease in domestic revenue, due to low tax collection. However, this has been partially compensated by external assistance in 2015/2016, privatization proceeds and other revenue in 2016/2017, and external assistance and miscellaneous revenue in 2017/2018. The detail can be found under Annex 5.

Dimension score = D

PILLAR II. Transparency of public finances

PI-4 Budget classification

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-4 Budget classification	**B**	**Scoring method M1**
PI-4.1 Budget classification	B	Budget formulation, execution, and reporting are based on administrative, economic, and functional classification using GFS/COFOG standards or a classification that can produce information that is consistent with those standards.

PI-4.1 Budget and accounts classification is consistent with international standards

54. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator.

55. The system used for budget formulation, execution, and reporting during the period under review, that is, the last fiscal year, was IBEX. The Chart of Accounts (CoA) embedded in IBEX has the program classification and sub-functional classification that is in line with the Classification of Functions of Government (COFOG) standards. Execution and year-end reporting are detailed at the sub-functional or program level. The classification in IBEX follows the GFS 2001 standards and is consistent with COFOG at the level of functions. As in 2015, the structure is in place to execute and report at the program and sub-functional levels since the introduction of program budgeting, but it is not fully used. Thus, the requirements for a score of 'A' are not met.

Dimension score = B

PI-5 Budget documentation

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-5 Budget documentation	**C**	**Scoring method M1**
PI-5.1 Budget documentation	C	Budget Document fulfils at least three basic elements.

PI-5.1 The comprehensiveness of the information provided in the annual budget documentation is measured against a list of 'basic' and 'additional' items

56. This indicator has one dimension to assess the comprehensiveness of the information provided in the annual budget documentation presented by the Executive to the Council of Representatives and is measured using a list of 'basic' and 'additional' elements included in the last budget submitted to Parliament, that is, the FY2018/2019 (EC 2011) budget.

Table 3.5: Budget documentation benchmarks

No.	Budget documentation benchmarks	Availability
Basic elements		
1.	Forecast of the fiscal deficit or surplus (or accrual operating result)	Yes, Budget Document
2.	Previous year's budget outturn, presented in the same format as the budget proposal	No
3.	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes, Budget Document
4.	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used (refer to PI-4), including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates	Yes, Budget Summary
Additional elements		
5.	Deficit financing, describing anticipated composition	Yes, Budget Document page 56
6.	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Yes, Budget Document + Budget Speech + Budget Summary
7.	Debt stock, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	No
8.	Financial assets, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	No
9.	Summary information of fiscal risks including contingent liabilities, such as guarantees, and contingent obligations embedded in structure financing instruments, such as PPP contracts	No
10.	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of **all** major revenue policy changes and/or major changes to expenditure programs	Partially, Budget Speech
11.	Documentation on the medium-term framework	Partially; medium-term estimates for program expenditure are presented in Volume II.
12.	Quantification of tax expenditures	No

Sources: Budget Document 2011, Budget Speech 2011, Budget Summary 2011.

57. The budget documentation for FY2018/2019 (EFY 2011) includes an explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of major changes to expenditure programs. For some of the major revenue policy changes, the budgetary impact is assessed but not for all.

Dimension score = C

PI-6 Central government operations outside financial reports

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-6 Central government operations outside financial reports	**B**	**Scoring method M2**
PI-6.1 Expenditure outside financial reports	B	Expenditure outside government reports is less than 5% of total BCG expenditure.
PI-6.2 Revenue outside financial reports	C	Revenue outside Government Reports is less than 10% of the total BCG revenue.
PI-6.3 Financial reports of extrabudgetary units	B	Detailed financial reports of **most** EBUs are submitted to the government annually within six months of the end of the fiscal year.

58. This indicator measures the extent to which government revenue and expenditure are reported outside government financial reports.

PI-6.1 Expenditure outside financial reports

59. The existing EBUs are (a) the Road Fund, (b) the Industrial Development Fund, (c) the Oil Stabilization Fund, and (d) the Pension and Security Fund. The Sugar Fund, identified in the 2015 PEFA assessment, is dormant, so there are now four funds. These are defined in accordance with the IMF GFS 2014 definition, which is also reported in the Field-Guide page 46, clarifications 6.1, 6.2, and 6.3.[3] Each EBU is set up by its own individual proclamation. The total expenditure for the four EBUs appears in the annual accounts and for FY2017/2018 was 4.38 percent of the total Budgetary Central Government (BCG) expenditure for the fiscal year.

Dimension score = B

Table 3.6: EBUs, expenditure, and revenue, EFY2010 (FY2017/18) in ETB, millions

	Name of the unit	Revenue	Expenditure	Date of submission of accounts to the external audit service
1	Road Fund	2,748.29	1,870.03	EFY 25/01/2011
2	Industrial Development Fund	11,134.41	11,370.21	EFY 30/01/2011
3	Oil Stabilization Fund	663.57	536.17	EFY 15/04/2011
4	Pension and Security Fund	22.01	6.27	EFY 15/04/2011

[3] EBUs are separate units that operate under the authority or control of a central government (or in the case of a subnational government assessment, the state or local government). They may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources. Even though their budgets may be subject to approval by the legislature, EBUs have discretion over the volume and composition of their spending. Such entities may be established to carry out specific government functions, such as road construction, or the nonmarket production of health or education services. Budgetary arrangements vary widely across countries, and various terms are used to describe these entities, but they are often referred to as 'extra-budgetary funds' or 'decentralized agencies' (GFS Manual 2014, chapter 2, section 2.82).

	Name of the unit	Revenue	Expenditure	Date of submission of accounts to the external audit service
	Total revenue and expenditure for EBUs	14,568.29	13,782.68	
	Total revenue and expenditure for BCG	252,210.99	314,372.44	
	Revenue and expenditure of EBUs as percentage of total BCG revenue and expenditure	**5.78**	**4.38**	

Sources: EBUs' annual accounts and Accounting Department data for total BCG.

PI-6.2 Revenue outside financial reports

60. As can be seen from Table 3.6, the total revenue of EBUs for the last completed fiscal year, which is EFY 2010 and Gregorian FY2017/2018, was 5.78 percent of the total BCG revenue, that is, more than 5 percent but less than 10 percent.

Dimension score = C

PI-6.3 Financial reports of extra-budgetary units

61. The end of the fiscal year in the Ethiopian calendar is the 10th month of the year, which corresponds to July 7 in the Gregorian calendar. The Road Fund, accounting for 14 percent of the total EBU expenditure, submitted its annual accounts to the federal MoF on EC 25/01/2011, which corresponds to GC 5/10/2018, that is, within three months of the end of the fiscal year. The Industrial Development Fund, which alone accounts for 82 percent of total EBU expenditure, submitted its accounts on EC 30/01/2011, which corresponds to GC 10/10/2018, that is, within six months of the end of the fiscal year. The two funds together amount to 96 percent of the value of EBUs in terms of expenditure so that all EBUs submit their accounts to the central government within six months of the end of the fiscal year.

Dimension score = B

Table 3.7: Financial report on EBUs

Name of the fund	Expenditure	Date of submission of accounts to Board	EBU expenditure in % of total EBUs' expenditure EFY 2010 (Gregorian FY2017/2018)
Road Fund	1,870.03	EFY 25/01/2011	14
Industrial Development Fund	11,370.21	EFY 30/01/2011	82
Oil Stabilization Fund	536.17	EFY 15/04/2011	4
Pension and Security Fund	6.27	EFY 15/04/2011	0.05
Total revenue and expenditure for EBUs	13,782.68		

Sources: EBUs' annual accounts.

PI-7 Transfers to subnational governments

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-7 Transfers to subnational governments	**A**	**Scoring method M1**
PI-7.1 System for allocating transfers	A	The system for allocating horizontal transfers to regional governments is rule based and transparent. However, regional priorities may differ from federal government priorities, leading to poor resource allocation and inefficient service delivery.
PI-7.2 Timeliness of information on the transfers	A	Regional governments receive reliable information on transfers more than two months before the beginning of the new fiscal year; this allows sufficient time to prepare their annual budgets. The federal government budget timetable provides indicative ceilings by February.

62. This indicator assesses the transparency and timeliness of transfers from the federal government to the first-tier SNGs along with fiscal relations with the federal government. It reviews the basis for the transfers, including whether the regional governments receive timely information about their allocations to facilitate fiscal planning.

PI-7.1 System for allocating transfers

63. Table 3.8 outlines the general-purpose formula for regional subsidies.

Table 3.8: Block grant formula

Region/ administration	2006 old formula share	2009 new formula % share	EFY 2011			
			100% 2009			Total subsidy
			Treasury	Loan	Assistance	
Total Pool	**1.00**	**1.00**	**131,218.70**	—	**448.89**	
Tigray	***7.15***	***6.03***	7,909.80	—	29.77	7,939.56
Afar	***3.12***	***3.02***	3,956.40	—	19.96	3,976.36
Amhara	***23.24***	***21.60***	28,280.70	—	159.51	28,440.20
Oromiya	***32.45***	***34.46***	45,281.80	—	90.83	45,372.65
Somale	***8.12***	***9.98***	13,115.50	—	24.88	13,140.42
Ben. Gumz	***2.15***	***1.83***	2,385.80	—	23.74	2,409.52
SNNP	***20.11***	***20.11***	26,414.80	—	63.55	26,478.35
Gambela	***1.50***	***1.33***	1,721.40	—	29.75	1,751.18
Hareri	***1.00***	***0.76***	997.50	—	3.19	1,000.67
Dire dawa	***1.16***	***0.88***	1,155.00	—	3.70	1,158.67
Subtotal	**100.00**	**100.00**	**131,218.70**	—	**448.89**	**131,667.58**
Addis Ababa				**3,932.88**	**4.27**	**3,937.15**
Total (including Addis)	**100.00**	**100.00**	***131,218.70***	***3,932.88***	***453.15***	***135,604.73***

64. The HF is responsible for approving the general-purpose grant distribution formula for SNGs. According to Article 62(7) of the Constitution, the HF "shall determine the division of revenues derived from joint Federal and State tax sources and the subsidies that the Federal Government may provide to the States." The system of horizontal allocation of grants (both conditional and unconditional) is transparent and rule based; also, actual distribution of both conditional and unconditional grants follows the same approved allocation formula. The distribution formula, which is valid for three years,

is based on population and size of region/state, the proximity to the federal capital city, the socioeconomic development status (the needs of the region/state), earmarked external aid, and the ability to generate own revenues (state revenues such as property tax). The current formula approved in EC 2009 (GC 2017) will be applicable until EC 2011 (GC 2019).

65. Three types of grants are transferred to the second-tier SNGs, excluding the city of Addis Ababa since it is self-sufficient in terms of revenue generation: (a) block grants from the federal government, (b) 50 percent share of business income tax and 30 percent of indirect taxes collected by the federal government on behalf of the regions, and (c) SDG capital grants.

66. In spite of this good practice in allocating resources to regional governments, there are serious concerns referencing the utilization of these grants for the targets, as outlined in GTP II. Resources are allocated according to regional priorities, which may be entirely different from the federal government's set priorities even though they may be included in the regional GTP II; these may lead to poor service delivery at the woreda (district government) levels. These are constitutional mandates hence there are no measures in place to force alignment of federal government priorities with that of regional for the block grants.

Dimension score = A

PI-7.2 Timeliness of information on the transfers

67. For FY 2018, the regional governments received reliable (approved) information on federal transfers on April 20, 2017, more than two months before the start of the new fiscal year. It should be noted that both federal and regional governments have the same fiscal year. The annual budget calendar issued by the MoF (federal government) also provides an indicative ceiling of transfers to SNGs by February. There are, however, significant delays regarding the actual disbursement of grants to regional governments, mainly due to cash flow challenges; available evidence suggests that delays up to three months are encountered. For the fiscal year ending June 30, 2018, grants (subsidies) due to regional governments amounted to ETB 1.96 billion (unaudited); these grant arrears relate to SDGs (earmarked funds).

Dimension score = A

PI-8 Performance information for service delivery

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-8 Performance information for service delivery	**B+**	**Scoring method M1**
PI-8.1 Performance information for service delivery	A	Each year, the federal government publishes information on its policy objectives, performance indicators, outputs, and outcomes to be achieved in the next fiscal year. This information is disaggregated by program.
PI-8.2 Performance achieved for service delivery	D	The MoF consolidates program budget results into a report; this was the case in FY2017/2018. The report contains information on outputs and outcomes from all sectors, again disaggregated by program. However, this is not published. While the education sector (14% by value of federal government budget) publishes an annual statistical abstract, the health sector does not.

Indicator/Dimension	Score 2018	Justification for 2018 score
8.3 Resources received by service delivery units	A	Information on resources to the regional and woreda levels, where the service delivery units operate, is collected and recorded by the MoH and the MoE, disaggregated by source of funds. A report compiling the information is prepared at least annually.
8.4 Performance evaluation for service delivery	A	The MoF conducts an annual evaluation of all sectors to assess the efficiency and effectiveness of government policy; the report is however not published. That said, there is also an annual joint evaluation (known as the JRIS) of the pro-poor sectors (education, health, water and sanitation, and agriculture—all together covering 100% of pro-poor and service delivery expenditure). The JRIS reports are published. The World Bank also published two PERs conducted in 2016 and 2017.

PI-8.1 Performance plans for service delivery

68. Each year, the MoF prepares and submits a consolidated performance indicator framework, which is known as 'Volume 2' of the federal government budget to the HoPR, as part of the budget submission documents. For instance, 'Volume 2' of the 2018/2019 budget contains information on government policy objectives, planned performance outputs, and outcomes for all sectors. This is published on the MoF website (www.mofed.gov.et). Some outcome indicators in the education sector include, for instance, (a) increase enrolment and completion in secondary and higher education from the current 20 percent in 2017/2018 to 25 percent in 2018/2019 and (b) strengthen the quality and relevance of education at all levels from the current 51 percent in 2017/2018 to 55 percent in 2018/2019. As the federal government has adopted and is using program budgeting, the information is disaggregated by program. This facilitates the tracking of performance outputs and outcomes from each sector. In addition to the publication of the 'Volume 2' budget document, sector ministries such as education, health, and agriculture, among others, also publish their five-year strategic plans as well as their annual plans.

Dimension score = A

PI-8.2 Performance achieved for service delivery

69. Each year, the MoF consolidates program budget results into a report; this was the case in FY2017/2018. The report contains information on outputs and outcomes from all sectors, again disaggregated by program. This report is submitted to the Council of Ministers for review and deliberation. The results provide a basis for the Council of Ministers to decide whether the sector priorities have been met or there are significant deviations that require immediate corrective actions. Nonetheless, the report (results of the program budget from all sectors) is not published. In the health sector, for instance, the Health Management Information System (HMIS) is used every year (including 2017/2018) to collect data and report on health sector programs, outputs, and outcomes, but this is not published. The educational sector (which constitutes about 15 percent by value of federal government expenditure) produces and publishes an annual educational statistical abstract.

Dimension score = D

PI-8.3 Resources received by service delivery units

70. The federal government does not manage service delivery units such as primary schools and health care centers. However, the PEFA Field-Guide explains that services managed and financed by other tiers of government (in this case, regional governments and woredas) should be included if the central government significantly finances such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents. This is the case for the federal government. Information on resources to the regional and woreda levels where the service delivery units operate is collected and recorded by the MoH and the MoE, disaggregated by source of funds. A report compiling the information is prepared at least annually.

Dimension score = A

PI-8.4 Performance evaluation for service delivery

71. Available evidence indicates that over the last three completed fiscal years, 2015/2016, 2016/2017, and 2017/2018, the MoF conducted annual evaluation of all sectors to assess the efficiency and effectiveness of government policy and submitted a report to the Council of Ministers. This report is, however, not published. There is also an annual joint evaluation (known as the Joint Review Implementation Support [JRIS]) of the pro-poor sectors (education, health, water and sanitation, and agriculture), conducted between government and development partners. The JRIS evaluation reports are published on the website (https://esap2.org.et/esap3-design-document-completed-jris). Since an independent and published evaluation is conducted in 100 percent of the sectors that are considered pro-poor and for service delivery, the score is A.

72. Also, within the last three completed fiscal years, the World Bank has conducted a Public Expenditure Review (PER) in the health and education sectors, with final reports dated April 2016 and November 2017, respectively. These PERs are also published on the website.

Dimension score = A

PI-9 Public access to fiscal information

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2016 score
PI-9 Public access to fiscal information	**D**	**Scoring method M1**
PI-9.1 Public access to fiscal information	D	The government makes available to the public two basic elements and one additional element.

PI-9.1 Public access to fiscal information

Table 3.9: Public access to key fiscal information

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
Basic elements			
1.	**Annual executive budget proposal documentation:** A complete set of executive budget proposal documents (as assessed in PI-5) is available to the public within one week of the executive submitting them to the legislature.	No	—

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
2.	**Enacted budget:** The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Yes	The enacted budget is published in the Negaret Gazette at accessible prices. For the 2018/2019 budget, the gazette was published on July 8, 2018 (EC 2011). The budget was approved by Parliament on July 7, 2018. The FY2011 Government of Ethiopia Federal Budget Summary Volume is also published on the MoF website (www.mofed.gov.et) but later than two weeks from the budget approval.
3.	**In-year budget execution reports:** The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27.	No	—
4.	**Annual budget execution report:** The report is made available to the public within six months of the fiscal year's end.	No	—
5.	**Audited annual financial report, incorporating or accompanied by the external auditor's report:** The report(s) are made available to the public within 12 months of the fiscal year's end.	Yes	They are posted on the OFAG website (www.OFAG.gov.et) within 12 months of the fiscal year's end.
Additional elements			
6.	**Pre-budget statement:** The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	No	—
7.	**Other external audit reports:** All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.	Yes	They are posted on the OFAG website (www.OFAG.gov.et) within six months of submission.
8.	**Summary of the budget proposal:** A clear, simple summary of the executive budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a 'citizens' budget' and, where appropriate, translated into the most commonly spoken local language, is publicly available within two weeks of submission of the executive budget proposal to the legislature and within one month of the budget's approval.	No	—
9.	**Macroeconomic forecasts:** The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	No	—

73. As indicated in Table 3.9, the federal government makes available only three out of the nine elements of information.

Dimension score = D

Ongoing reforms

74. None.

PILLAR III. Management of assets and liabilities

PI-10 Fiscal risk reporting

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-10 Fiscal risk reporting	**D**	**Scoring method M2**
PI-10.1 Monitoring of public corporations	D	Monitoring of public corporations is weak; 99.6% (by value) of public corporations submit their annual financial statements to both the government and OFAG between two to five years after the end of the financial year. Only 0.4% (by value) submit their reports within six months after the end of the financial year.
PI-10.2 Monitoring of subnational governments	D	Regional governments submit annual financial statements to the government; these reports are not published. There are significant delays of more than one year in publishing audited reports of regional governments.
PI-10.3 Contingent liabilities and other fiscal risk	D	The federal government does not prepare or publish a fiscal risk report. Also, it does not prepare and monitor both explicit and implicit contingent liabilities.

75. This indicator has three dimensions. Dimension 10.1 assesses the level of monitoring of fiscal risk implications of public corporations on central government operations, dimension 10.2 examines fiscal risk posed by SNGs, and dimension 10.3 measures the level of central government contingent liabilities and other fiscal risks.

PI-10.1 Monitoring of public corporations

76. The federal government's monitoring of SOEs is weak. Until 2017, there was a ministry responsible for public enterprises but that has now become an agency under the MoF. There are significant delays referencing the submission of annual financial statements from SOEs to the government (and OFAG). Information from 52 SOEs were obtained and analyzed. As shown in Table 3.10, only 2, representing 0.4 percent by value, submit their annual financial statements to the government and OFAG within six months after the end of the previous financial year, whereas 14, representing 17.6 percent by value, do so within one year, and 11, representing 65.1 percent by value, submit their annual financial statements within two years. The remaining 25 SOEs, representing 16.9 percent by value, submit their reports within three to five years. While 25 SOEs, representing 45 percent, had 'disclaimers' in terms of audit opinion, 19 SOEs, representing 34 percent, had 'clean' audit opinions; the remaining 12, representing 21 percent, had 'adverse' or 'except for' audit opinions.

Dimension score = D

PI-10.2 Monitoring of subnational governments

77. Article 65 of the Federal Government Financial Administration Proclamation No. 648/2009 EC (648/2017 GC) allows regional governments to borrow domestically but only with the approval of the Minister of Finance, in line with the overall government fiscal and debt policy. Further, regional governments are mandated to submit all relevant fiscal and financial information to the MoF for consideration and approval before processing any borrowing. Article 68 of the same proclamation also

requires all regional governments to prepare and submit annual financial statements on the utilization of subsidies received from the federal government. Whereas the federal government receives annual financial statements of regions, it does not prepare consolidated fiscal risk reports of these SNGs. The publication of regional government audited financial statements is significantly delayed for more than a year; unaudited annual financial statements are not published. At the time of drafting this report (December 2018), four regional governments and the city of Addis Ababa had submitted their 2017/2018 annual financial statements to the federal government, as shown in Table 3.10. The majority of SNGs submit their annual financial statements to the federal government within six months of the end of the fiscal year, but these accounts are not published.

Table 3.10: Regional/city government submission of annual financial statements

Regional/city government	Fiscal year financial statement	Date of submission
Addis Ababa	2017/2018	October 9, 2018
Oromia	2017/2018	October 9, 2018
Tigray	2017/2018	December 12, 2018
Benishangul-Gumuz	2017/2018	December 3, 2018
SNNPR	2017/2018	October 5, 2018

Dimension score = D

PI-10.3 Contingent liabilities and other fiscal risks

78. Presently, the federal government does not prepare or publish a fiscal risk report nor does it prepare and monitor explicit and implicit contingent liabilities. In July 2017, the legislature passed the Public-Private Partnership Law to regulate the sector, and in May 2018, the PPP Unit was established under the direct supervision of the State Minister for Finance. This unit is in the process of developing guidelines and manuals on PPPs. Officials of the Fiscal Risk Directorate have indicated that two PPP projects in the energy sector are being considered.

Dimension score = D

Ongoing reforms

79. The Macro-fiscal Directorate indicated that it is developing manuals and guidelines for the training of staff and preparation of the fiscal risk report, starting February 2019.

Table 3.11: Analysis of date/period of submission of SOEs annual financial statements (ETB, thousands)

Name of SOE	Profit/loss before tax	Period of submission of annual financial statements and profit				
		6 months	1 year	2 years	3 years	4 or more years
Ethiopian Management Institute	32,251	—	—	—	—	32,251
Private Organizations Employees Social Security Agency	4,558,011	—	—	4,558,011	—	—
Transport Authority	103,352	—	—	—	103,352	—
Public Service Employees Transport Service Enterprise	(170,997)	—	—	(170,997)	—	—
Ethiopian Airlines Enterprise	5,381,918	—	5,381,918	—	—	—

Name of SOE	Profit/loss before tax	Period of submission of annual financial statements and profit				
		6 months	1 year	2 years	3 years	4 or more years
Ethiopian Railways Corporation	(2,331,412)	—	(2,331,412)	—	—	—
Educational Materials Production and Distribution Enterprise	31,603	—	31,603	—	—	—
Building Materials Supply Enterprise	1,365	—	—	—	—	—
Ethiopian Construction Design and Supervision Works Corporation	75,814	—	—	75,814	—	—
Addis Ababa City Bus Service Enterprise	(56,197)	—	—	(56,197)	—	—
Former Ethiopian Airports Enterprise	936,467	—	—	936,467	—	—
Former Ethiopian Road Construction Corporation	72,324	—	—	72,324	—	—
Ethiopian Toll Roads Enterprise	73,819	—	—	73,819	—	—
Ethiopian Shipping and Logistics Services Enterprise	1,577,554	—	—	—	—	1,577,554
Industrial Parks Corporation	(89,121)	(89,121)	—	—	—	—
Ethiopian Pulp and Paper Share Company	(6,242)	—	(6,242)	—	—	—
Ethiopian Electric Utility	(342,934)	—	(342,934)	—	—	—
Former Merchandise Wholesale and Import Trade Enterprise	67,041	—	—	—	—	67,041
Ethiopian Electric Power	(4,292,420)	—	—	(4,292,420)	—	—
Ghion Hotels Enterprise	21,188	—	21,188	—	—	—
Federal Housing Corporation	186,200	—	—	186,200	—	—
Industrial Projects Service	9,312	9,312	—	—	—	—
Former Ethiopian Agricultural Commodities Warehousing Service Enterprise	24,332	—	—	24,332	—	—
Ethiopian Civil Aviation Authority	21,089	—	—	—	21,089	—
Ethiopian Insurance Corporation	501,687	—	501,687	—	—	—
Public Service Employees Transport service Enterprise	(32,650)	—	(32,650)	—	—	—
Commercial Nominees PVLTD	148,845	—	148,845	—	—	—

Name of SOE	Profit/loss before tax	Period of submission of annual financial statements and profit				
		6 months	1 year	2 years	3 years	4 or more years
Seda Textile PV LTD Co	(14,311)	—	(14,311)	—	—	—
Insurance Fund Administration Agency	71,477	—	71,477	—	—	—
Metals and Engineering Corporation - Consolidated account	474,596	—	—	—	—	474,596
Hi-Tech Industry	(12,874)	—	—	—	—	(12,874)
Dejen Aviation Industry	(31,218)	—	—	—	—	(31,218)
Corporate Military Technology Operation	1,799	—	—	—	—	1,799
Adama Garment Industry	16,960	—	—	—	—	16,960
Construction and Engineering Machinery	42,025	—	—	—	—	42,025
Akaki Basic Metals Industry	4,731	—	—	—	—	4,731
Corporate Logistics and Supply Management	(2,707)	—	—	—	—	(2,707)
Ethiopian Plastic Industry	20,088	—	—	—	—	20,088
Ethiopian Power Engineering Industry	116,830	—	—	—	—	116,830
Metal and Engineering Corporation (METEC) Head Office	(74,553)	—	—	—	—	(74,553)
Gafat Armament	(27,953)	—	—	—	—	(27,953)
Adama Agricultural Machinery Industry	61,628	—	—	—	—	61,628
Bishoftu Automotive and Locomotive Industry	267,733	—	—	—	—	267,733
Homich Ammunition and Chemical Engineering Industry	(40,932)	—	—	—	—	(40,932)
Hibret Manufacturing and Machine Building Industry	3,182	—	—	—	—	3,182
Metal and Fabrication Industry	2,923	—	—	—	—	2,923
Corporate new Business Development	(10,202)	—	—	—	—	(10,202)
Spa Service Enterprise	32,612	—	32,612	—	—	—
Former Ethiopian Agricultural Warehousing Service Enterprise	55,456	—	55,456	—	—	—
Federal HIV/AIDS Prevention and Control Office	(1,393)	—	(1,393)	—	—	—
Ethiopian Pharmaceutical Supply Agency	759,870	—	—	—	571,866	188,004

Name of SOE	Profit/loss before tax	Period of submission of annual financial statements and profit				
		6 months	1 year	2 years	3 years	4 or more years
Commercial Bank of Ethiopia	11,621,403	—	—	11,621,403	—	—
Total	19,997,625	79,809	3,515,846	13,028,758	696,307	2,676,906
% of submission by value	**—**	**0.40**	**17.60**	**65.10**	**3.50**	**13.40**

Source: OFAG.

PI-11 Public investment management

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-11 Public investment management	**D+**	**Scoring method M2**
PI-11.1 Economic analysis of investment projects	D	There is no independent economic analysis of all major capital investment projects. However, a few projects initiated by budget units undergo simple economic analysis.
PI-11.2 Investment project selection	C	Most capital investment projects are selected based on government priorities; selection is done at the level of the Council of Ministers.
PI-11.3 Investment project costing	D	Project costing is weak; only total capital investment cost is provided. There is no forward-linked recurrent expenditure framework.
PI-11.4 Investment project monitoring	C	At present, implementing central government units monitor projects through physical inspection and quarterly and annual financial progress reports. The M&E Directorate of the PDC does not effectively monitor and evaluate government investment projects.

80. This indicator assesses the process of economic appraisal, selection, costing, and monitoring of most significant public investment projects by the government. This is a new indicator; it has four dimensions.

Background

81. In May 2017, DFID conducted a public investment management (PIM) assessment at the federal government level in Ethiopia. The report concludes that the framework for managing public investment projects is weak. There were no guidelines for project appraisal, selection, costing, and monitoring. Therefore, investment projects were funded without going through critical economic analysis and also without the input of the Planning and Development Commission (PDC). Following from that, the PDC (formerly known as the National Planning Commission - name changed in September 2018) began the drafting of regulations, guidelines, and manuals to better manage public investments. The draft regulations (yet to be approved by the Council of Ministers) now makes it mandatory for all public investments initiated by budget units to be submitted to the Commission for independent economic analysis, without which the project will not be funded by the budget. For FY2017/2018, the capital investment projects listed in Table 3.12 have been submitted to the Commission for appraisal; only five capital investment projects from one ministry (Ministry of Water and Irrigation) meet the PEFA definition of investment project, that is, at least 1 percent of total government budget; the analysis covers central government budget entities and EBUs.

Table 3.12: List of major capital investment projects FY2017/2018

Name of the project (Ministry of Water and Irrigation)	Investment cost (US$, thousands)	Investment cost (ETB, thousands)	Total federal government budget (ETB, thousands) FY2017/2018	% of total budget
Water Supply and Sanitation Project	150,000	4,170,000	308,887,000	1.35
Development Sustainable Water Supply, Sanitation and Hygiene Program in Drought Prone Areas of Ethiopia Project	5,000,000	139,000,000	308,887,000	45.00
Gibe-3 Sub-basin Integrated Catchment Rehabilitation and Water Resource Management Project	149,720	4,162,216	308,887,000	1.35
Negeso Dam Irrigation and Drainage Scheme	119,500	3,322,100	308,887,000	1.08
Scaling up of Solar Water Pumping for Domestic Use in Rural Areas of Ethiopia	225,207	6,260,762	308,887,000	2.03

Note: Exchange rate as of July 7, 2018: US$1 = ETB 27.8.

PI-11.1 Economic analysis of investment projects

82. The PDC (formerly the National Planning Commission) is responsible for appraising all government-financed public investment programs. For projects financed by external financiers, project appraisal is done by the funding agency. Following from the DFID PIM assessment, progress is noted in that the legal framework has been endorsed in December 2019 following review by key stakeholders. The PIM regulation and accompanying manuals are also applicable to EBUs. The PDC has also developed manuals and guidelines for this purpose, which are yet to be finalized. As these processes are still work in progress, it is too early to assess the efficacy of these measures. Currently, however, central government units (budgetary units and EBUs) use simple methods for project appraisal, which are not scientific. Besides, all major projects do not undergo independent economic analysis.

83. At present, the PDC has only seven technical staff with the requisite expertise to carry out project appraisal. The adoption of the new PIM regulations and guidelines is expected to put enormous pressure on the limited technical staff to speedily and effectively conduct project appraisal, since it will be mandatory for all capital projects to be subjected to independent economic analysis by the PDC. The strategy, though interim, is for the PDC to engage the services of independent consultants and academicians from tertiary institutions to fill the gap.

Dimension score = D

PI-11.2 Investment project selection

84. Currently, most capital investment projects are selected based on government priorities and political considerations, as these decisions are made at the Council of Ministers' level with little technical appraisal. Some capital projects initiated by line ministries are selected through the Medium-Term Expenditure Framework (MTEF) process; however, the selection and linking of projects to the

MTEF is not well organized, as most projects are funded by the budget without proper scrutiny and selection. Going forward, this trend is expected to change after the passage and adoption of the draft PIM regulations and guidelines. Project selection is based on a number of criteria; three key selection criteria are the following:

- **Desirability.** Project(s) must be in line with the overall government medium-term strategic plan (in this case, GTP II). Also, projects must be of institutional relevance and provide support to public and private users.
- **Achievability.** This relates to the project deliverability, funding mechanisms, and other environmental constraints and challenges.
- **Viability.** This relates to cost implications and mainstream revenue-generating potential, management implications, financial sustainability, and project economic impact.

85. The selection of projects for inclusion into the budget does not systematically follow these criteria.

Dimension score = C

PI-11.3 Investment project costing

86. Officials from the PDC indicate that most public investment projects do not have full and comprehensive costing framework. A comprehensive project costing considers both total investment cost of the project plus forward-linked recurrent expenditure after completion of the project, in other words, the running cost of the investment project. Also, it ascertains the affordability and cash flow implications for both ongoing projects and new investments to be funded by the national budget and any funding gaps thereon. An MTEF of capital investment projects is provided, but there is no forward-linked recurrent expenditure of those projects. For instance, the FY2017/2018 projected capital investment cost was ETB 105.7 billion; however, there are no details of forward-linked recurrent expenditure.

Dimension score = D

PI-11.4 Investment project monitoring

87. Each implementing central government unit presently monitors investment projects through physical inspection and periodic (quarterly) financial progress reports. The annual financial statements of budget units also report on investment costs. The PDC is responsible for monitoring and evaluating all federal government projects, but presently, the Monitoring and Evaluation (M&E) Directorate at the Commission is weak in terms of technical acumen and number of staff. The directorate does not effectively monitor and evaluate government projects. OFAG conducts performance audits of some government projects and publishes these reports; for FY2017/2018, 20 performance audits were carried out. Going forward, the new regulations will make it mandatory for the M&E Directorate at the PDC to monitor and evaluate all government capital investment projects.

Dimension score = C

Ongoing reforms

88. DFID and the World Bank are providing technical assistance for drafting the new PIM regulations, guidelines, and manuals. This is underway and not yet completed.

PI-12 Public asset management

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-12 Public asset management	**D+**	**Scoring method M2**
PI-12.1 Financial asset monitoring	C	The federal government maintains records of its cash and bank balances; there are no records of other financial assets such as government equity shares in both public and private enterprises.
PI-12.2 Nonfinancial asset monitoring	D	The federal government does not maintain a comprehensive and consolidated register of its fixed assets. Presently, management of fixed assets is decentralized at the budget unit level. The asset registers maintained by these budget units do not provide information on the age and usage of assets.
PI-12.3 Transparency of asset disposal	C	Article 67 of the Federal Government Procurement and Property Administration Proclamation No. 649/2009, dated September 9, 2009, and Directive No. 9/2010 outline the legal and regulatory framework for disposal of fixed assets; there are no clear legal provisions for the disposal of financial assets. Proceeds from the sale of fixed assets and financial assets are disclosed in the financial reports; there is no disclosure of the new owner(s).

89. This indicator has three dimensions. Dimension 12.1 assesses the level at which financial assets (government investments in public or private companies) are monitored and reported; dimension 12.2 examines the extent to which nonfinancial assets (fixed assets) are monitored and reported; dimension 12.3 measures the level of transparency of asset disposal.

PI-12.1 Financial asset monitoring

90. The assessment of this dimension covers central government budget entities, and EBUs. The only financial asset record maintained by the federal government is its cash and bank balances; there are no records of other financial assets such as government equity shares in both public and private enterprises. The 2017/2018 annual financial statements (unaudited) show dividend income of ETB 2.46 billion; there is no disclosure of government shareholdings. The periodic monitoring of financial assets provides an opportunity for the government to ascertain whether it is receiving the right dividends—also for it to determine whether to continue to invest in a business venture or otherwise.

Dimension score = C

PI-12.2 Nonfinancial asset monitoring

91. Management of fixed assets is decentralized at the level of each budget unit. Article 65 of the Federal Government Procurement and Property Administration Proclamation No. 649/2009 mandates all heads of budget units to record the date, description, quantity, and cost of acquisition and indicate the custody and usage of fixed assets. There is, however, no clear and comprehensive asset management policy at the federal government level. Each budget unit maintains an asset register for vehicles, furniture and fittings, computers, and equipment, but the register does not show the cost of assets; also, there are no records of land, buildings, and subsoil assets. The asset registers at each budget unit do not provide information of their usage and age. It should be noted that the federal

government uses modified cash basis of accounting and therefore cost of assets is written off as and when they are purchased. The federal government is in a transition phase, migrating from IBEX to IFMIS, which will then allow the asset module in IFMIS to report on fixed assets.

Dimension score = D

PI-12.3 Transparency of asset disposal

92. Article 67 of the Federal Government Procurement and Property Administration Proclamation No. 649/2009, dated September 9, 2009, and Directive No. 9/2010 outline the legal and regulatory framework for disposal of fixed assets. According to the Directive, each fixed asset valued at ETB 10,000 or above and/or cumulatively valued at ETB 100,000 or above shall be referred to the Public Procurement and Property Disposal Service (PPPDS) for disposal. Below this threshold, the budget unit shall dispose of assets through public auction. The PPPDS advertises in the national newspapers and conducts public auction, with the highest bidder assuming the right of ownership. Article 67(3) of the same law (Procurement and Property Administration Proclamation) clearly states that all proceeds from disposal shall be paid into the National Treasury. Evidence obtained from the PPPDS indicates that ETB 96.3 million was realized as proceeds from asset disposal and paid into the Treasury for FY2016/2017; also, ETB 37 million was paid into the Treasury as fixed assets disposal proceeds for FY2017/2018. For disposal of financial assets, there are no clear legal provisions; however, proceeds from privatization, disclosed in the annual financial statements, amounted to ETB 646.9 million for FY2017/2018. Information on new owners of assets are, however, not disclosed.

Dimension score = C

Ongoing reforms

93. No known reforms.

PI-13 Debt Management

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-13 Debt management	**A**	**Scoring method M2**
PI-13.1 Recording and reporting of debt and guarantees	B	The Debt Management Directorate of the MoF uses Version 6 of DMFAS to record and manage public debt (both domestic and foreign) and guarantees. Debt reports are generated at least quarterly. At least 75% of debts are reconciled quarterly.
13.2 Approval of debt and guarantees	A	Article 40 (2) of the 2017 Financial Administration Proclamation No. 648/2009[4] mandates the Minister of Finance as the sole government official authorized to contract loans and issue guarantees on behalf of the Government of Ethiopia. The HoPR approves all loans and guarantees.
13.3 Debt management strategy	A	A current MTDS covering 2016–2020 has been prepared and published on the MoF website (mofed.gov.et). The strategy shows government refinancing, plan foreign currency and interest rate risks. Government borrowing plan is consistent with the MTDS.

[4] Ethiopian Calendar = 2017 Gregorian Calendar.

94. There are three dimensions under this indicator; dimension 13.1 assesses the integrity and comprehensiveness of reporting federal government debt (both domestic and foreign debts as well as guarantees); dimension 13.2 measures the legal and regulatory framework governing approval of loans and guarantees; dimension 13.3 assesses whether government prepares a medium-term debt strategy (MTDS).

PI-13.1 Recording and reporting of debt and guarantees

95. The assessment of this dimension covers the entire central government. Total public debt stood at US$49 billion as of the end of June 2018; this comprised an external debt component of US$26.4 billion, representing 54 percent of the total public debt, and a domestic debt element of US$22.6 billion, at 46 percent. According to IMF, the debt-to-GDP ratio was estimated at 58 percent[5] by June 2018. The Debt Management Directorate of the MoF uses Version 6 of the Debt Management and Financial Analysis System (DMFAS) to record and manage public debt (both domestic and foreign) and guarantees. DMFAS provides information on domestic and foreign debt, name of creditor(s), bilateral and multilateral loans with respect to transaction date, opening balance, principal repayments, interest payments, principal and interest due date, additional loan commitments, and closing balance. The software is comprehensive and generates monthly analytical and statistical reports. The Debt Management Directorate also produces quarterly debt bulletins; the most recent relates to the quarter ending June 2018 and dated August 2018.

96. Referencing loans contracted from the World Bank (IDA), the MoF Debt Management Directorate has a direct client service connection which allows daily reconciliation of debt stock. There is also a monthly reconciliation mechanism with African Development Bank. Reconciliation with other creditors is done yearly through creditor annual statements; these constitute about 25 percent of total foreign creditors. Domestic debt is reconciled with the NBE each month.

Dimension score = B

PI-13.2 Approval of debt and guarantees

97. The assessment of this dimension covers the central government. Article 40 (2) of the 2017 Financial Administration Proclamation No. 648/2009[6] mandates the Minister of Finance as the sole government official authorized to contract loans and issue guarantees on behalf of the Government of Ethiopia. According to Article 40(1), the HoPR must approve all loans contracted as well as guarantees issued by the Minister of Finance. According to Article 65 of the Federal Government Financial Administration Proclamation No. 648/2009 EC (648/2017 GC) regional and city governments can borrow but only with the approval of the Minister of Finance; borrowing must also be in line with the federal government's overall debt policy. The debt management directorate of the MoF manages and monitors all of the government's debt portfolio, including guarantees issued on behalf of SOEs.

Dimension score = A

PI-13.3 Debt management strategy

98. In October 2016, the government produced the new (current) MTDS for 2016–2020 and published it (MoF website, www.mofed.gov.et) in January 2019. The development of the MTDS was primarily to diversify from traditional sources of borrowing as well as reduce the cost of debt, to effectively and efficiently provide resources to fund the Growth and Transformation Plan (GTP). Second, the government's objective for developing the MTDS was to improve the domestic debt

[5] IMF Article IV report on Ethiopia - January 2018.
[6] Ethiopian Calendar = 2017 Gregorian Calendar.

market through local primary and secondary government securities, thereby reducing the overreliance on foreign debt. The new (current) comprehensive debt strategy was developed in 2016 with technical assistance from the IMF, evolving from the government's position to henceforth focus on concessionary loans as against non-concessionary debts which tend to be more expensive, as well as domestic resource mobilization (and/or domestic borrowing). Further, the current MTDS now captures SOEs' borrowing strategy and requirements, which were missing in the previous MTDS developed in October 2012 for 2013–2017.

99. Government's borrowing is consistent with its strategy and approved by Parliament. Quarterly (and annual) public debt report is generated and submitted to the legislature. The debt report provides statistical analysis of all material risks thereof.

Dimension score = A

Ongoing reforms

100. The World Bank is providing support to the government in terms of upgrading and linking DMFAS to IFMIS.

PILLAR IV. Policy-based fiscal strategy and budgeting

PI-14 Macroeconomic and fiscal forecasting

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-14 Macroeconomic and fiscal forecasting	**B**	**Scoring method M2**
PI-14.1 Macroeconomic forecasts	B	The government prepares forecasts of key macroeconomic indicators, which, with the underlying assumptions, are included in the budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections are not reviewed by a technical entity other than the preparing entity.
PI-14.2 Fiscal forecasts	A	The Fiscal Policy Directorate, through the MEFF, prepares forecasts of the main fiscal indicators, including revenue by type, aggregate expenditure, and the budget balance for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and the explanations of the main differences from the forecast made in the previous year's budget, are included in the budget documentation submitted to Parliament.
14.3 Macro-fiscal sensitivity analysis	C	The macro-fiscal forecasts prepared by the government include a qualitative assessment of the impact of alternative macroeconomic assumptions.

101. This indicator measures the ability of a government to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations.

PI-14.1 Macroeconomic forecasts

102. The Fiscal Policy Directorate of the MoF prepares the Macro Economic Fiscal Framework (MEFF) which contains forecasts for aggregate expenditure and revenue and key macroeconomic indicators (inflation, production, exchange rate, global market price of commodities, and so on) for the current year and two outer years. The MEFF has been issued for the past three fiscal years so that the MTFF is updated every year. The MEFF is sent to the Council of Ministers for approval and review and is included for information in the budget documentation submitted to Parliament. Its projections are reviewed by the Council of Ministers which is an entity other than the preparing entity. That said, as the review required by the framework is at the technical level rather than the political, the Council of Ministers does not meet the requirement. The underlying assumptions are submitted to Parliament together with the key macroeconomic indicators.

Dimension score = B

PI-14.2 Fiscal forecasts

103. The Fiscal Policy Directorate, through the MEFF, prepares forecasts of the main fiscal indicators, including revenue by type, aggregate expenditure, and the budget balance for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and the explanations of the main differences from the forecast made in the previous year's budget, are included in the budget documentation submitted to Parliament. The differences with the previous year's budget are explained in section 4 of the MEFF for all past three fiscal years. Underlying assumptions: for revenue, the performance of past years' tax collection was taken into account, as well as the nominal GDP growth; for expenditure, the targets of GTP II, the exchange rate and the government's cost reduction strategy, and debt, among others, were taken into account.

Dimension score = A

PI-14.3 Macro-fiscal sensitivity analysis

104. The macro-fiscal forecasts in the MEFF prepared by the Fiscal Policy Directorate include a qualitative assessment of the impact of alternative macroeconomic assumption such as performance of tax reform and nontax revenue, economic development, aid, FDI, completion of ongoing projects, and the exchange rate impact.

Dimension score = C

PI-15 Fiscal strategy

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-15 Fiscal strategy	**D**	**Scoring method M2**
PI-15.1 Fiscal impact of policy proposals	D	The government does not prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year.
PI-15.2 Fiscal strategy adoption	D	The government does not prepare a current fiscal strategy that includes qualitative objectives for fiscal policy.
PI-15.3 Reporting on fiscal outcomes	NA	The government does not prepare an internal report on the progress made against its fiscal strategy.

105. This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. No fiscal strategy is developed for the Federal Government of Ethiopia.

PI-15.1 Fiscal impact of policy proposals

106. The government does not prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year.

Dimension score = D

PI-15.2 Fiscal strategy adoption

107. The government does not prepare a current fiscal strategy that includes qualitative objectives for fiscal policy.

Dimension score = D

PI-15.3 Reporting on fiscal outcomes

108. The government does not prepare an internal report on the progress made against its fiscal strategy.

Dimension score = NA

Ongoing reforms

109. None.

PI-16 Medium-term perspective in expenditure budgeting

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-16 Medium-term perspective in expenditure budgeting	**D+**	**Scoring method M2**
PI-16.1 Medium-term expenditure estimates	D	The annual budget document presents estimates of expenditure by administrative function or program and economic type but for the budget year only.
PI-16.2 Medium-term expenditure ceilings	D	Aggregate and ministry-level expenditure ceilings for the budget are approved by the Council of Ministers after the BCC is issued to budgetary units.
PI-16.3 Alignment of strategic plans and budgets	D*	Besides that of the MoE, no sector strategies were provided to the assessment team.
PI-16.4 Consistency of budgets with previous year's estimates	B	The budget documents provide an explanation of 77% (that is, most) of the changes to expenditure estimates between the second year of the last medium-term budget and the present year of the current budget at the ministry level.

110. This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

PI-16.1 Medium-term expenditure estimates

111. The annual budget document presents estimates of expenditure by administrative function or program and economic type but for the budget year only. Though one of the budget documents, Volume II, presents estimates of expenditure for every line ministry and agency by program for three years, to qualify for a score above 'D', multiyear estimates need to be developed by administrative or economic classification. Program classification can be substituted for the functional classification requirement only if the administrative and economic classification requirements are met, to qualify for an 'A'.

Dimension score = D

PI-16.2 Medium-term expenditure ceilings

112. In 2018, the Budget Call Circular (BCC) was issued on February 5 (see PI-17.1). For the preparation of the budget for the EFY2011 and FY2018/2019, both the MEFF and the MTEF were approved by the Council of Ministers on February 14, 2018. The MTEF includes both aggregate and ministry-level ceilings for the budget year and two outer years and the MEFF includes the aggregate ones.

Dimension score = D

PI-16.3 Alignment of strategic plans and budgets

113. The assessment team met the MoH, MoE, Ministry of Agriculture (MoA), Ethiopian Roads Authority (ERA), and the PDC and asked for the sector strategic plans which are deemed to be developed on a five-year basis and updated annually. Only the MoE sector strategy was provided to the assessment team.

Dimension score = D*

PI-16.4 Consistency of budgets with previous year's estimates

114. The changes between the MTEF issued in EFY2010 for EFY 2011–2015 and the EFY2011 budget are detailed in Table 3.13 also in terms of the size of the expenditure involved by the changes. Only 23 percent of the changes in value, compared to MTEF forecasts, relating to the MoA were left unexplained in the EFY2011 Budget (FY2017/2018 GC Budget). As a result, the budget documents provide an explanation of 77 percent (that is, most) of the changes to expenditure estimates between the second year of the last medium-term budget and the current year's budget at the ministry level.

Dimension score = B

Table 3.13: Changes between the MTEF and budget

Concerned items/budget units	Changes in terms of approved expenditure (FY2011 EC, FY2018/2019 GC) in ETB, billions	Explanation (Yes/No)	Unexplained changes
Total recurrent	3.16	Yes	—
Total capital	2.12	Yes	—
Total recurrent and capital	4.28	Yes	—
MoA	9.12	No	**23%**

Concerned items/budget units	Changes in terms of approved expenditure (FY2011 EC, FY2018/2019 GC) in ETB, billions	Explanation (Yes/No)	Unexplained changes
Ministry of Water	2.73	Yes	—
ERA	9.10	Yes	—
MoE	0.97	Yes	—
Subsidies	7.94	Yes	—
Regional subsidies	0.13	Yes	—
TOTAL changes	39.65	—	—

Sources: Budget EC 2011 and MTEF issued in FY2010 for 2011–2015.

Ongoing reforms

115. None.

PI-17 Budget preparation process

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-17 Budget preparation process	**B**	**Scoring method M2**
PI-17.1 Budget calendar	A	A clear annual budget calendar exists, is generally adhered to, and allows budgetary units six weeks from receipt of the circular to meaningfully complete their estimates on time.
PI-17.2 Guidance on budget preparation	B	A comprehensive budget circular is issued to budgetary units, which covers total budgetary expenditure for the full fiscal year. The budget reflects ministry ceilings submitted to the Council of Ministers. The Council's approval took place after the distribution of the BCC to budgetary units but before budgetary units had completed their submissions.
PI-17.3 Budget submission to the legislature	C	The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in all three years.

116. This indicator assesses the budget formulation process that allows for an effective top-down and bottom-up participation of the ministries, departments, and agencies (MDAs), including their political leadership represented by Cabinet. It also assesses the extent to which the annual budget preparation process supports the linking of the draft budget to public policy objectives. Dimensions (i) and (ii) are assessed using the last budget submission, for FY2018/2019. Dimension (iii) is assessed on the basis of the last three approved budgets, that is, FY2016/2017, 2017/2018, and 2018/2019.

PI-17.1 Budget calendar

117. A clear budget calendar is generally adhered to and allows budgetary units six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time. For the preparation of the past budget, budgetary units have from February 5 to March 22 to complete their submission. The Ministries of Agriculture, Education Health, and Roads have confirmed that they had six weeks for the preparation of the 2018/2019 budget and that the time was adequate.

Table 3.14: Budget Calendar (federal)

Cycle/Part/Stage	Ethiopian Calendar	European Calendar
Planning Cycle		
1. Macroeconomic and Fiscal Framework (MEFF)	Hamle 1–Tahisas30	July 8–January 8
1.1 Preparation of MEFF	Not later than Hidar 30	Not later than December 9
1.2 Approval of MEFF	Tahisas 30	January 8
2. Notification of 3-year subsidy estimates to regions	Tir 01	January 9
3. Prepare and finalize annual fiscal plan	Tir 15	January 23
Budget Cycle		
A. Executive Preparation and Recommendation of Budget		
1. Budget preparation	Not later than Yekatit 1	Not later than February 8
2. Notification of annual subsidy budget	Yekatit 1	February 8
3. Issue budget call circular	Yekatit 1	February 8
4. Submit budget requests	Not later than Megabit 15	Not later than March 22
5. Preparation of draft recommended budget	Megabit 15–Ginbot 15	March 24–May 23
6. Budget recommendation	Ginbot 16–Ginbot 25	May 24–June 2
B. Legislative Approval		
7. Approval and appropriation of the budget	Sene 1–Sene 30	June 8–July 7
C. Executive Implementation		
8. Notification of approved budget	Hamle 1–Hamle7	July 8–14
9. Receipt of approved budget and changes to action plans and financial plans	Hamle 8–Hamle 30	July 15–August 6
10. Implementation of approved budget	Hamle 1–Sene 30	July 8 to July 7 of next year

Source: Budget Department.

118. As can be seen from Table 3.15, all public bodies (99.975 percent of public bodies in terms of actual expenditure) answered on time to the BCC.

Dimension score = A

Table 3.15: Public bodies that answered late to the BCC for the preparation of the EFY2011 budget and FY2018/2019 budget

Budget code	Name of public body	Submission date (EC)	Actual expenditure FY2010 EC, FY2017/2018 GC in ETB, millions
111	HoPR	21/8/2010	202,428,248.69
113	Office of the Federal Auditor General	27/7/2010	79,555,609.00
133	Institution of The Ombudsman	24/7/2010	62,494,619.78
135	Information Network Security Agency	18/7/2010	1,403,731,568.65
163	Public Procurement and Property Administration Agency	20/7/2010	9,078,139.75
164	Ethiopian Radiation Protection Authority	20/7/2010	11,179,879.91
212	Agricultural Transformation Agency	18/7/2010	132,745,814.9
255	Ministry of Livestock and Fishery Resource	21/7/2010	628,395,942.89
256	Ethiopian Coffee and Tea Development and Marketing Authority	20/7/2010	60,721,288.14

Budget code	Name of public body	Submission date (EC)	Actual expenditure FY2010 EC, FY2017/2018 GC in ETB, millions
224	Abay Basin Authority	18/7/2010	57,572,145.85
226	Rift Valley Lakes Basin Authority	18/7/2010	28,662,274.00
231	Ministry of Trade	18/7/2010	87,436,272.00
232	Federal Micro and Small Enterprises Agency	19/7/2010	53,404,855.00
239	Chemical and Construction Inputs Industry Development Institute	19/7/2010	47,780,348.00
263	Ethiopian Civil Aviation Authority	18/7/2010	187,503,732.00
277	Ministry of Construction	18/7/2010	91,919,886.00
278	Federal Urban Job Creation and Food Security Agency	18/7/2010	561,365,214.00
327	Selalie University	18/7/2010	104,978,350.00
376	Education Strategy Center	18/7/2010	11,866,064.00
399	Assosa University	19/7/2010	481,750,962.00
336	Ethiopian Wildlife Conservation Authority	18/7/2010	911,42,303.00
339	Ethiopian Youth Sports Academy	18/7/2010	70,530,984.00
356	Ethiopian Tourism Organization	19/07/2010	35,036,546.00
361	National Disaster Risk Management Commission	20/7/2010	15,221,314,256.00
Total expenditure for public bodies FY2010 EC and FY2017/2018 GC that answered late to the BCC (after March 22, 2018 GC)			79,555,609.00
Total expenditure for public bodies FY2010 EC and FY2017/2018 GC			314,372,437,002,00.00
Total expenditure for public bodies that answered late to the BCC/Total expenditure for public bodies FY2010 EC and FY2017/2018 GC			**0.025%**

Source: Budget Department.

PI-17.2 Guidance on budget preparation

119. The Budget Circular is clear and comprehensive and includes guidelines that explain well how to complete the budget submissions. This was confirmed by the line ministries visited (Agriculture, Health, Education, and Roads). It includes ceilings by public bodies for both recurrent and capital expenditure. For the preparation of the FY2018/2019 budget, the ministry-level ceilings were submitted to the Council of Ministers. They were approved by the Council of Ministers together with the overall MEFF resource envelopes and the MTEF on February 14, 2018. That is just after the BCC was distributed to public bodies but before they completed their submissions on March 22.

Dimension score = B

PI-17.3 Budget submission to the legislature

120. The fiscal year in Ethiopia starts on July 8. The executive has submitted the budget proposal to the Budget and Finance Committee (BFC) at Parliament around 5 weeks before the start of the fiscal year for the last three years.

Dimension score = C

Table 3.16: Dates of submission of the budget to the legislature

Ethiopian Calendar	European Calendar	
EC 2011	2018/2019	June 4, 2018
EC 2010	2017/2018	June 2, 2017
EC 2009	2016/2017	June 3, 2016

Ongoing reforms

None.

PI-18 Legislative scrutiny of budgets

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-18 Legislative scrutiny of budgets	**B+**	**Scoring method M1**
PI-18.1 Scope of budget scrutiny	B	The legislature's review covers fiscal policies and aggregates for the coming year, as well as the details of expenditure and revenue.
PI-18.2 Legislative procedures for budget scrutiny	A	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.
PI-18.3 Timing of budget approval	A	The legislature has approved the annual budget before the start of the fiscal year in each of the last three years.
PI-18.4 Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget amendments by the executive and are adhered to in ***most*** instances. Extensive administrative allocations are permitted.

121. This indicator assesses the legislative scrutiny and debate of the annual budget law as described by the scope of the scrutiny, the internal procedures for scrutiny and debate, and the time allocated to that process, in terms of the ability to approve the budget before the commencement of the new fiscal year. It also assesses the existence of rules for in-year amendments to the budget without ex ante approval by the legislature.

PI-18.1 Scope of budget scrutiny

122. Though the MEFF is submitted to Parliament together with the detailed estimates of the annual budget, for the review of the FY2011 EC (FY2018/2019 GC), the RBFSC of Parliament only examined the annual budget, which contains the aggregates for the coming year and the details of expenditure and revenue, and the budget speech. The speech is given by the Minister of Finance before the submission of the budget and then the speech is provided in writing with the budget. Fiscal policies are explained in the budget speech. Thus, the legislature's review covers fiscal policies, aggregates for the coming year, and the details of expenditure and revenue.

Dimension score = B

PI-18.2 Legislative procedures for budget scrutiny

123. The legislative procedures for budget scrutiny include a specialized committee. The RBFSC of Parliament is a standing committee of 30 members appointed by the speaker of the HoPR. It has three subcommittees: (a) planning and budget, (b), revenue, and (c) government enterprise. The scrutiny process is the following: the budget is submitted to the speaker of the HoPR, who sends it to the RBFSC for examination. The Committee calls the Minister of Finance and MoF senior officials for explanations. Other members of Parliament may also ask questions that relate to their constituencies. At the end, the Committee prepares a public hearing to which the public, the universities, civil society, and any interested party is invited. The legislature's procedures to review budget proposals are approved by the legislature in advance of the hearings. Negotiation procedures are in place and are specified in the code of conduct under the section on budget scrutiny. The procedures also include the option to ask for technical support.

Dimension score = A

PI-18.3 Timing of budget approval

124. The dates of the submission of the draft budget to the BFC of Parliament are shown Table 3.17. The dates of approval by the BFC of Parliament for the last three budgets are also shown in the table. The fiscal year in Ethiopia starts on July 8, so that for the past three fiscal years the budget was approved before the start of the new fiscal year.

Table 3.17: Budget submission to Parliament and adoption (2016/2017–2018/2019)

Budget year	Draft budget submitted to Parliament	Budget adopted by Parliament
2016/2017 GC (FY2009 EC)	June 3, 2016 GC	June 29, 2016 GC
2017/2018 GC (FY2010 EC)	June 2, 2017 GC	June 30, 2017 GC
2018/2019 GC (FY2011 EC)	June 4, 2018 GC	June 29, 2018 GC

Source: Budget Department.

Dimension score = A

PI-18.4 Rules for budget adjustments by the executive

125. Article 2.3 of the Financial Administration Proclamation of 2009, (Proclamation No. 648/2009) states that "transfers shall be allowed from the recurrent to the capital budget" and that "no transfers shall be allowed from the capital to the recurrent budget." This provision gives the MoF the flexibility to transfer budget provisions between sectors, programs, and economic items just as long as capital budget allocations are not transferred to the recurrent budget. An increase in total expenditure without ex ante approval by Parliament is also not allowed.

126. The team analyzed all the government transfers for FY2010 EC (FY2017/2018 GC) and could conclude that no transfers were made from the capital to the recurrent budget. Some transfers were made from capital to capital expenditure. All instances were thus in line with the legal framework. In-year transfers were however significant at ETB 119.344 billion, which amounts to 38 percent of total expenditure for FY2010 EC (FY2017/2018 GC).

Dimension score= B

Ongoing reforms

127. None.

PILLAR V. Predictability and control in budget execution

PI-19 Revenue administration

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-19 Revenue administration	**C+**	**Scoring method M2**
PI-19.1 Rights and obligations for revenue measures	B	The ERCA (MoR) uses multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
PI-19.2 Revenue risk management	C	The ERCA (MoR) uses partly structured and systematic approach for assessing and prioritizing compliance risks.
PI-19.3 Revenue audit and investigation	A	Aggregate tax audit completed exceeded target by 18.82%.
PI-19.4 Revenue arrears monitoring	D*	Complete information on tax arrears for FY2017/2018 is not available.

128. The indicator assesses the procedures used to collect and monitor central government revenues. A government's ability to collect revenue is an essential component of any PFM system.

PI-19.1 Rights and obligations for revenue measures

129. Most of the government's revenue (81 percent of the total revenue in the last three years excluding donor grants) is collected by the ERCA (recently changed to the MoR). Nontax revenue is mainly collected from government investment and administrative fees and charges accounts for 10 percent and the remaining 9 percent is generated from capital and other revenues. Information on the main tax obligations and rights and redress processes and procedures are communicated to taxpayers using different channels such as website (www.erca.gov.et), social media (Facebook and Twitter), annual magazines, and radio and television programs. The main tax laws applicable in Ethiopia are the following:

- Proclamation No. 173/1961, as amended by Proclamation No. 979/2016 for Income Tax;
- Proclamations No. 30/1992, No. 107/1994, and No. 979/2016 for income tax on employment
- Proclamations No. 77/1997, No. 152/1978, and No. 8/1995 for rural land and agricultural activities income tax
- Proclamation 979/2016 for rental income tax
- Proclamation No. 286/2002 for unincorporated business
- Proclamations No. 36/1996 and No. 286/2002 as amended for incorporated business
- Proclamation No. 286/2002 for capital gains tax
- Proclamations No. 68/1993 and No. 285/2002 for value added tax (VAT) on goods and services
- Proclamation 612/2016 for Stamp Duty
- Proclamations No. 149/1999 for Sales and Excise tax

- Income Tax Regulation No. 78/2002
- Excise Tax Proclamation No. 307/2002
- Turnover Tax Proclamation No. 308/2002
- Proclamation on Customs 859/2014
- Federal Tax Administration Proclamation 983/2016

130. In general, the laws and regulations are up to date and comprehensive. However, private sector representatives complain that regulations prepared by the ERCA are not easily accessible; also, these tax laws are too many, resulting in ambiguity and confusion regarding which laws are applicable. Further, the private sector has also complained about the frequent changes to tax laws, thereby affecting tax compliance. The Ethiopian and Addis Chambers of Commerce have equally intimated that some private sector businesses deliberately refuse to comply with tax laws. There are many different laws and regulations, taxes, and exemptions that apply but no one tax policy document that may bring all together into one vision. The Tax Policy Directorate is currently updating selected taxes to adjust to the evolving economic situation. Tax and customs proclamations, regulations, and directives are posted on the website (www.erca.gov.et) as well as in articles and news. The ERCA has one radio program and two TV programs on two different channels. It has conducted various awareness creation programs with taxpayers to increase their understanding of their rights and obligations and to promote the culture of voluntary compliance using workshops, holding of taxpayer week, and so on. It also uses call center 8199. Administrative fees and charges are collected by different government entities. These are basically for services provided for citizens such as court fees, professionals' registration fees, passport and collections from foreigners' registrations, and so on.

131. The Ethiopian Chamber of Commerce has indicated that it is usually invited to awareness creation workshops organized by the ERCA and its input has been considered in the revised Income Tax and Tax Administration Proclamations. However, it cited concerns such as unfairly high tax assessment, delays in VAT refund, and appeal process.

132. The mechanisms for administrative and judicial tax appeal are defined under part 9 of the Tax Administration Proclamation No. 983/2016. There are three tiers of tax appeal mechanisms:

(a) Administrative mechanism through the different levels of structures within the MoR, formerly known as the ERCA

(b) An independent Tax Appeal Commission (TAC)

(c) Court of law - Federal High Court and Federal Supreme Court

133. The proclamation specifies the tax appeal procedures at each level. The ministry has set the threshold for appeals to be presented to the branch offices as below ETB 50 million and to the head office as above ETB 50 million. A tax appeal should be presented to the ministry within 21 days of notice of decision. A taxpayer who does not receive an objection decision within 180 days of appeal and/or is not satisfied with the decision of the ministry can file a notice of appeal to the TAC. For the notice of appeal to be valid, the taxpayer has to pay 50 percent of the assessed amount to the MoR; this has now been reduced to 25 percent. That said, the tax appeal system is a disincentive to taxpayers since it requires payment of at least 25 percent of tax assessed before filing an appeal. A taxpayer who is dissatisfied with the decision of the TAC may, within 30 days after being served with the notice of the decision, file a notice of appeal to the Federal High Court. For the appeal to the Court to be valid, the taxpayer has to pay 75 percent of the assessed amount. A taxpayer who is dissatisfied with the decision of the Federal High Court may, within 30 days after being served with the notice of the decision, file a notice of appeal to the Federal Supreme Court. Officials of the MoR have indicated

that majority of tax appeal cases are settled administratively; there are, however, no statistics to back this point.

Dimension score = B

PI-19.2 Revenue risk management

134. The risk management function of the ERCA is guided by the Risk Management Policy and Strategy and managed under a separate directorate from the Law Enforcement and Audit Directorate. The policy and strategy cover both domestic tax and customs functions. There are also manuals and guidelines to help risk assessors. The ERCA has a decentralized risk management structure and assessments are done at the branch offices. Risk assessment is conducted using the risk module of the Ethiopian Customs Management System (eCMS) and taxpayers are grouped into three categories: importers, exporters, and domestic taxpayers. The importers and exporters are categorized into four levels based on their risk profile. Domestic taxpayers are also classified into three levels, that is, large, medium, and small. Majority of the decisions are made by the Risk Management Committee, which is chaired by the State Minister for Law Enforcement and established to oversee the whole risk management process. Selection of taxpayers for audit is semiautomated with some human interface.

135. The tax registration system requires every taxpayer to have a Taxpayer Identification Number (TIN) and this is incorporated in the tax administration software SIGTAS (for domestic revenue) and ASYCUDA[7]++ (for customs). The TADAT assessment (2017) identified design and configuration weaknesses in the Standard Integrated Government Tax Administration System (SIGTAS) and the taxpayer data as being inaccurate and unreliable and not able to provide the number of active and inactive taxpayers. TINs are prepared using the automated fingerprint identification system and card production facility. It is not possible to get trade license or form a company without having a TIN registration. The MoR has a poor system of identifying unregistered taxpayers but it is currently working with different stakeholders such as the Ministry of Trade to bring traders operating without registration into the system. The MoR has also started remote registration system for the diaspora community through Ethiopian embassies. The MoR is planning to use a data machine to address the gaps between SIGTAS and ASYCUDA++.

136. Taxpayers are categorized as A, B, and C based on their annual revenue; category A and B are required to maintain books of accounts. Hence, they are required to pay their taxes on a self-assessment basis based on their financial reports, while category C taxpayers, who are not required to maintain books of accounts, are required to pay presumptive tax according to a schedule included within the Income Tax Regulation. All tax payments above ETB 2,000 should be paid using a Certified Payment Order (CPO) and cash collections by cashiers in each branch should be deposited to the bank daily.

137. Nontax revenues collected by other entities are deposited daily to a blocked account at the Commercial Bank of Ethiopia and the bank transfers the balance to the MoF's treasury account. Collections are mainly made through CPO and direct bank deposit except small amounts that are collected in cash.

Dimension score = C

PI-19.3 Revenue audit and investigation

138. The audit and investigation functions were organized separately into three sections: tax audit, post-clearance audit, and investigation audit. In January 2018, the three functions were merged into

[7] ASYCUDA = Automated System for Customs Data.

one directorate as the Law Enforcement and Audit Directorate to enable coordination among the three audits and avoid the probability of a single taxpayer being audited thrice. Selection of files for audit (which is semiautomated) is performed by the Risk Management Directorate based on the risk profile of each taxpayer. An annual audit plan is developed by the directorate and cascaded to the respective branches. The ERCA uses a Tax Audit Manual and a Post-Clearance Audit Manual. In FY2017/2018 a total of ETB 8.07 billion, ETB 9.99 billion, and ETB 1.65 billion was generated from tax investigation, domestic tax audits, and post-clearance audits, respectively. Table 3.18 shows the planned and performed audits in 2017/2018. The performance of post-clearance audit was high while the performances of tax investigation audit and domestic tax audit were low. That said, aggregate tax audit completed as against planned audit exceeded the target by 18.82 percent. The main reasons for the low performance in tax investigations and domestic tax audit were shortage of manpower, low staff capacity, and restructuring of the ERCA which interrupted operations for a few months.

Table 3.18: Planned and performed audits in 2017/2018

Type of Audit	Planned	Performed	Percentage
Tax investigation audit	507	282	55.62
Domestic tax audit	3,666	2,999	81.81
Post-clearance audit	1,495	3,454	231.04
Total	5,668	6,735	118.82

Source: The ERCA annual report.

139. Audit of nontax revenue is conducted by the Internal Audit Directorates of the line ministries that collect revenue as part of their regular audit, and the Inspection Directorate at the MoF oversees the internal audit functions of all line ministries. Quarterly internal audit reports are submitted to the MoF Inspection Directorate. External audit of these line ministries is conducted by OFAG, which covers 100 percent of BIs (PI-30.1).

Dimension score = A

PI-19.4 Revenue arrears monitoring

140. As mentioned in the ERCA's annual report for 2017/2018, reconciliation of tax arrears that was recorded on SIGTAS and manual records was conducted in three branches in coordination with the Tax Transformation Office. Tax arrears write-off guidance has also been developed. Accordingly, efforts to collect tax arrears were conducted and in 2017/2018, ETB 11,823 million was collected, representing 6.72 percent of the total revenue of the year. Information on domestic tax arrears for 2017/2018 is available; however, information on customs revenue arrears and collections is not available for the same period—hence the score of D*.

Dimension score = D*

PI-20 Accounting for revenue

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-20 Accounting for revenue	**C+**	**Scoring method M1**
PI-20.1 Information on revenue collections	C	The ERCA, which collects 81% of the federal government's domestic revenue, reports collections to the MoF on a monthly basis. The report classifies the taxes according to type.

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-20.2 Transfer of revenue collections	B	Domestic tax revenue collections are transferred to the Treasury within 3 days; nontax revenues are deposited within 24 hours.
PI-20.3 Revenue accounts collections	C	The monthly reconciliation does not include assessments and arrears; reconciliation only covers collections and transfers to the Treasury.

141. This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. Accurate recording and reporting of tax and nontax revenue collections is important to ensure all revenue is collected in accordance with relevant laws.

PI-20.1 Information on revenue collections

142. The ERCA collects 81 percent of the federal government's revenue. The authority reports the collections on a monthly basis to the MoF, and the report for December 2018 was submitted at the time of the assessment. The report is classified as domestic revenue, customs, and lottery. Domestic revenue includes various tax types such as income tax, VAT, nontax revenue, customs duties, and excise duties. The total tax collection for the three years under review was ETB 431 billion and tax on foreign trade accounts for 47 percent; tax on income, profit, and capital gains 29 percent; and indirect taxes 24 percent. All other public bodies submit their financial reports, which include nontax revenue reports, on a monthly basis to the MoF.

143. The Chamber of Commerce has raised serious concerns on tax exemptions, citing a systematic framework of abuses. According to the Minister of Revenue, Ethiopia has lost a total of ETB 517 billion in tax exemptions between 2009/2010 and 2017/2018 (EC 2002–2010).[8] During the same period, total collections stood at ETB 519 billion; this indicates that only a net of ETB 2 billion has actually benefited the Ethiopian economy. The Federal Tax Administration Proclamation 983/2016 does not specify any concrete criteria except 'for good causes' for providing exemptions and no cost-benefit analysis is undertaken. Exemption could reach up to 5 percent of GDP.

Dimension score = C

PI-20.2 Transfer of revenue collections

144. The MoR (formerly the ERCA), which collects 81 percent of the revenue (excluding donor grants), has 11 domestic tax and 17 customs branches throughout the country, and each branch has a bank account for domestic revenue and customs revenues. Daily transfers are made to the MoF treasury account at the NBE by the branches in Addis Ababa. However, due to network problems, branches outside Addis Ababa could take up to three days to transfer the collections to the main treasury account. Nontax revenues from budget entities are paid directly into the main treasury account. The Commercial Bank of Ethiopia has standing instructions to transfer the collection to the Treasury twice daily from three big MoR branch bank accounts and daily from the remaining branch accounts. It is indicated that this instruction is fairly respected, and no significant delay is observed.

Dimension score = B

[8] As per newspaper publication 'The Ethiopia Reporter', dated February 10, 2019.

PI-20.3 Revenue accounts collections

145. The MoR (formerly the ERCA) prepares revenue reconciliation on a monthly basis by reconciling the monthly collection, retention by the authority, transfers from regions, and transfer to the MoF Treasury. However, this reconciliation does not incorporate assessments and arrears. Officials have identified this as a major weakness that requires redress.

Dimension score = C

PI-21 Predictability of in-year resource allocation

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-21 Predictability of in-year resource allocation	**C+**	**Scoring method M2**
PI-21.1 Consolidation of cash balances	C	As shown in Table 3.19, at least 76% of government cash and bank balances are consolidated monthly.
PI-21.2 Cash forecasting and monitoring	B	Each year within the review period, BIs prepare and submit annual cash flow plans to the MoF, which are consolidated. The annual cash flow forecasts are updated quarterly based on actual inflow and outflow of cash.
PI-21.3 Information on commitment charges	B	The MoF provider's quarterly ceilings for public bodies and public bodies are able to plan commitments for at least a quarter.
PI-21.4 Significance of in-year budget adjustments	C	Significant in-year adjustments to budget allocations take place frequently but they are done in a transparent way.

146. This indicator assesses the extent to which the central MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions. Dimension 21.1 assesses the consolidation of cash balances, dimension 21.2 examines cash forecasting and monitoring, dimension 21.3 assesses existence of information on commitment charges, and dimension 21.4 assesses the significance of in-year budget adjustments.

PI-21.1 Consolidation of cash balances

147. Cash management is the responsibility of the Treasury Directorate at the MoF. The Treasury Single Account (TSA) system has been established with the aim of reducing idle cash in the various government accounts and improve cash management. The TSA pools most government bank balances (including all federal government) through zero balance accounts. BIs are allowed to write checks up to their monthly limits, and the resulting unutilized balances are cleared to the Treasury Central Account at the close of each working day. As shown in Table 3.19, at least 76 percent of government cash and bank balances are consolidated monthly.

Table 3.19: Volume of cash in and outside TSA in ETB for year-end EC 2009 and 2010

Description with Chart of account codes	EC 2010 (FY2017/2018)	EC 2009 (FY2016/2017)
Total cash	4,815,979,577.81	5,377,791,343.29
Total cash balance in TSA (4105)	3,683,024,659.97	4,340,461,257.69
Cash in other accounts not part of TSA (4103)	986,306,392.22	893,049,152.33
Cash in hand (4101)	146,648,525.62	144,280,933.27

Description with Chart of account codes	EC 2010 (FY2017/2018)	EC 2009 (FY2016/2017)
Share of TSA cash balance (%)	**76**	**81**

Dimension score = C

PI-21.2 Cash forecasting and monitoring

148. Once the legislature approves the annual budget estimates, public bodies (budgeted entities) prepare and submit cash flow forecast each year to the MoF, and the MoF consolidates these cash flow forecasts to prepare the federal-level cash flow projections. The cash flow forecast is updated by the MoF and public bodies every quarter based on actual cash inflows and outflows.

Dimension score = B

PI-21.3 Information on commitment ceilings

149. The MoF provides quarterly ceilings to public bodies. Public bodies can plan commitments for at least one quarter. BIs get monthly releases (overdraft ceilings for their zero bank balance accounts) and can rely on the indicative amounts for subsequent months. BIs may plan beyond the three-month horizon but cannot be sure they will be able to meet forward commitments. Treasury, however, was not aware of any inability to fund budgeted allocations in recent years.

Dimension score = B

PI-21.4 Significance of in-year budget adjustments

150. The financial administration and budget proclamations stipulate clear rules for budget transfers that provide for a transparent mechanism for re-appropriation in-year adjustments by Parliament. A supplementary appropriation for FY2017/2018 was made only once. Supplementary appropriation is required only where there is a proposed increase in aggregate spending, and this was what justified the supplementary appropriation in FY2017/2018. On the other hand, the MoF has discretion on reallocations among ministries and programs, within the approved total expenditure. Transfers within programs are authorized at the level of the BI. As indicated under PI-18.4, in-year virements were significant at ETB 119.344 billion, which amounts to 38 percent of total expenditure for EFY 2010 (Gregorian FY2017/2018). Significant in-year adjustments to budget allocations are frequent (about 18,000 times within the fiscal year) but they are done in a transparent manner.

Dimension score = C

PI-22 Expenditure arrears

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-22 Expenditure arrears	**C+**	**Scoring method M2**
PI-22.1. Stock of expenditure arrears	A	The stock of expenditure arrears for at least two of the three years was 0.34% and 0.8%, which is less than 2%.
PI-22.2. Expenditure arrears monitoring	C	Data on the stock and composition of expenditure arrears are generated annually at the end of each fiscal period.

151. This indicator has two dimensions. Dimension 22.1 assesses the level of stock of expenditure arrears; dimension 22.2 examines the framework for monitoring expenditure payments arrears.

PI-22.1 Stock of expenditure arrears

152. Based on the information from the federal MoF's Accounts Directorate and the Treasury Directorate, the fiscal discipline of the country is well respected that current expenditures are paid from the current approved budget. The only unpaid bills for goods, services, and works which have been received before the end of the budget year, that is, EFY June 30 (July 7) are treated as a grace period payable and should be paid within 30 days of the new budget year up to EFY July 30 (August 6). This is done based on the finance administration proclamation and is used for capital budgets only. Since expenditures are treated on accrual basis, they are recorded yearly. All approved bills must be paid within the given 30 days of the grace period. Amounts that have not been paid within the grace period should be transferred back to the central treasury and adjustments will be done for the payable and expenditure of the budget year. Since the operations are recorded and reported through IFMIS and IBEX, after the end of the grace period, that is, August 6, no grace period payable appears on the monthly financial report submitted by the BIs. The visited ministries—MoH, MoE, MoA—and ERA have also confirmed that they do not have stock of expenditure arrears except the grace period payable which is reported at the end of the FY.

153. There are no arrears linked to wages and salaries. Salaries and wages are priority payment and there was no reported occurrence of non-payment. The federal government has benefited from a World Bank (IDA) loan whose repayment is managed by the MoF Debt Directorate through a direct client service connection which allows daily reconciliation of debt stock. There are no arrears reported on payment of loans.

154. The total amount of the stock of expenditure arrears for 2015/2016, 2016/2017, and 2017/2018 was ETB 503.82 million, ETB 1,336.37 million, and ETB 229.82 million, respectively, while the total expenditure of the same period was ETB 147,596 million, ETB 166,825 million, and ETB 184,524, respectively. The corresponding percentage is 0.34 percent, 0.8 percent, and 0.13 percent, respectively.

Table 3.20: Analysis of stock of expenditure arrears (ETB, millions)

Sl. No.	Description	FY2015/2016	FY2016/2017	FY2017/2018
1	Expenditure not paid at the end of the budget year EFY June 30 (Gregorian FY July 7)	503.82	1,136.37	229.82
2	Total expenditure of the budget year	147,596	166,825	184,524
3	Grace period payable as % of expenditure	**0.34**	**0.8**	**0.13**

Source: MoF Accounts Directorate financial report from IBEX.

Dimension score = A

PI-22.2 Expenditure arrears monitoring

155. The unpaid grace period payable within the given time frame did not appear on the monthly financial statements as payable since it is going to be paid from the budget year for which the expenditure belongs. Even this amount is not paid within the grace period, still it becomes part of the stock of expenditure arrears, but it is not reported as a liability in the monthly financial reports. Therefore, there is no regular monthly monitoring of the arrears. The data on the stock and composition of expenditure arrears is generated at the end of each fiscal period.

Dimension score = C

PI-23 Payroll controls

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-23 Payroll controls	**C+**	**Scoring method M1**
PI-23.1 Integration of payroll and personnel records	B	There is a direct link between personnel and payroll records for 44 BIs, through IFMIS. The 145 other government institutions use IBEX and have no direct link between personnel and payroll records. That said, all changes are fully supported by documentation as approved by authorized central government institution officials. Also, all hiring and promotion is done in accordance with approved staff posts.
PI-23.2 Management of payroll changes	A	Personnel records and payroll are updated at least monthly in a timely manner before the next month's payroll, and retroactive adjustments are rare. While consolidated data on retroactive adjustments are not available, sampled evidence from the MoH and MoE show less than 0.7% retroactive adjustments.
PI-23.3 Internal control of payroll	B	Authority and basis for changes to personnel records and payroll are clear and adequate; these ensure data integrity. Whereas 44 BIs have stronger payroll controls due to IFMIS, resulting in electronic audit trail, other 145 institutions on IBEX may have weaker controls due to manual interface even though it results in manual audit trail.
PI-23.4 Payroll audit	C	Partial payroll audits have been conducted by OFAG, internal audit units across central government institutions, and the Inspection Directorate of the MoF. This is done each year as part of the routine financial and compliance audits. A comprehensive payroll audit has not been conducted for all central government entities within the last three completed fiscal years.

156. The indicator of payroll control relates to how the payroll is managed, how changes to the payroll are controlled with responsibility, and how the personnel records are aligned to the payroll, to promote predictability in the availability of resources when requested. The indicator contains four dimensions: dimension 23.1 assesses the integration of payroll and personnel records, dimension 23.2 examines the management of payroll changes, dimension 23.3 assesses the effectiveness of payroll control, and dimension 23.4 assesses the extent of payroll audits.

157. The federal government payroll is decentralized to each central government institution. The Finance Administration Directorate of each central government institution has the responsibility for payroll and use of Microsoft Access-based software for those who do not use IFMIS but IBEX and the payroll module of IFMIS for those who have installed IFMIS. All central government institutions also have a personnel database in their respective Human Resource Directorates and departments. The database is used to manage staff leave, recruitments, performance evaluation, and other basic human resource activities.

158. The salary of staff is transferred to the saving account of each staff in the bank by each central government institution between the 25th and 30th of each month. The staff receive monthly pay slips which are generated from the payroll system. New staff who join after the 7th day of the month are paid in cash since they do not have a saving accounts at the bank. Every directorate or department of these institutions is responsible for controlling the attendance sheet and submitting the list of employees for the monthly salary before the 20th of the month to the Human Resource Directorate.

The Human Resource Management (HRM) department will consolidate the list of staff and submit to the Finance Administration Directorate for payroll preparation.

PI-23.1. Integration of payroll and personnel records

159. Each central government institution has an approved structure and posts as approved by the Ministry of Public Service before recruiting staff or for any promotions, with budgeted posts each fiscal year. The corresponding personnel databases of these institutions have supporting documents for changes due to hiring, transfer, promotion, demotion, salary and benefit, resignation, dismissal, and death. Each directorate or department of the institution submits the information available to the Human Resource Directorate, which submits the consolidated list of staff every month to the Finance Administration Directorate or Department. The finance administration payroll division requests the IFMIS payroll administrator to verify the availability of the post and budget for new recruits and receives a code to update the payroll list. The IFMIS payroll administrator sends the code to the payroll division for payroll preparation.

160. About 44 BIs use IFMIS, while 145 other central government institutions still use IBEX for financial management and payroll processing. Whereas those 44 BIs' personnel and payroll systems are directly linked, the remaining 145 use Excel for payroll management which is not directly linked or integrated with IBEX. Therefore, reconciliation within IFMIS is automatic but this is not the case with IBEX. All IBEX users have to manually reconcile payroll and staff list, which occurs in time before salary payment. That said, all payroll changes are fully supported by complete documentation as approved by the heads of central government institutions and other authorized heads of departments.

Dimension score = B

PI-23.2. Management of payroll changes

161. Central government institutions responsible for personnel and payroll records manage changes to these records on time, within a month before the next payroll is processed and paid. The timeliness of these changes is much faster in IFMIS, usually within 48 hours, and changes for IBEX with manual processes take between 2 to 4 weeks. Changes are made based on the appropriate supporting documents signed by authorized personnel. The death of staff is notified within the month of the death and according to the civil service law, the salary of that month is paid with additional three months' salary to the family of the late staff. Retroactive adjustments are rare since all changes are made on time within the month. While there are no consolidated data on retroactive adjustments due to the decentralized personnel and payroll system across the central government, available data from the two largest ministries—MoH and MoE—suggest that retroactive adjustments over the total salary expenditure are less than 0.7 percent as at the time of assessment.

Dimension score = A

PI-23.3 Internal control of payroll

162. Authority and basis for changes to personnel records and the payroll are clear and adequate. Changes are made within the month of payment and every directorate ensures that the names of eligible staff are sent in writing to HR. The responsibility of making payroll changes is given to an authorized payroll expert and the access to IFMIS's payroll is also assigned to a specific information technology (IT) expert. The system allows the production of an audit trail and the history of the transaction is maintained appropriately. Out of the four assessed central government institutions of the federal government, three use the IFMIS payroll module but the ERA uses bespoke payroll software which also provides an audit trail. While personnel and payroll controls are guaranteed in at

least 44 BIs using IFMIS, those controls relating to IBEX (145 central government institutions) may not be robust as that of IFMIS due to the manual interface. That said, manual audit trail exists in terms of tracing which authorized central government official had access to a personnel file and payroll record.

Dimension score = B

PI-23.4. Payroll audit

163. Partial payroll audits have been conducted by OFAG, internal audit units across central government institutions, and the Inspection Directorate of the MoF. This is done each year as part of the routine financial and compliance audits. A comprehensive payroll audit has not been conducted for all central government entities within the last three completed fiscal years. The routine payroll audit conducted by internal audit units in each central government institution is to reconcile the previous month's payroll and personnel records to the current month's data for monthly payroll processing and payment. The Inspection Directorate also checks the personnel and payroll database as part of its annual audit plan in some selected central government institutions. Available audit reports indicate no significant issues regarding ghost workers. Areas of concern include absence of job description and payment of salaries to terminated staff, but these are insignificant.

Dimension score= C

PI-24 Procurement

Summary of scores and performance table

Indicator/Dimension	Score 2018	Brief justification for score
PI-24 Procurement	**D+**	**Scoring method M2**
PI-24.1 Procurement monitoring	D	Most of the central government institutions do not maintain databases or records for contracts including data on what has been procured, the value of procurement, and who has been awarded contracts. They prepare the performance report directly from the source document at the end.
PI-24.2 Procurement methods	A	Available evidence from the FPPA suggests that 92.19% (by value) of contracts are awarded through open competitive method.
24.3 Public access to procurement information	D	Only two of the key procurement information are made available to the public through appropriate means.
24.4 Procurement complaints management	D	Four of the six basic elements for procurement complaint management have been met; however, criterion (1) is not met, which is required to score above 'D'.

164. This indicator focuses on the management of procurement expenditure and promotes predictability of resource availability. The indicator has four dimensions that focus on key procurement management, procurement monitoring, transparency, openness and competitiveness of procurement methods applied, public access to procurement information, and the management of procurement complaints and redress arrangements.

165. The federal government has given due attention to procurement management since more than 60 percent of the total annual budget is expended for procurement of goods, works, consultancy, and others. The FPPA has been established as an autonomous entity under the MoF by the Procurement and Property Administration Proclamation No. 649/2009. The legal framework for

procurement consists of the procurement and property administration proclamation, government procurement directives, procurement manuals, and standard bid documents.

166. The procurement function is decentralized within the central government (all ministries and EBUs). Each central government institution has its own procurement committee, procurement endorsing committee, and procurement experts. The FPPA's function is to regulate the procurement process in accordance with the proclamation and procurement directives. Each central government institution is responsible for preparing and submitting its annual procurement plan to the FPPA for information and approval. The central government institutions are required by law to publish their approved procurement plans above the threshold in line with the legal requirements, but this is not done.

PI-24.1 Procurement monitoring

167. The FPPA is responsible for the establishment of the procurement database for all central government institutions and for all methods of procurement. All the central government institutions are responsible for preparing the annual performance report and submitting the same to the FPPA after the end of each quarter and at the end of each budget year. Most central government institutions did not maintain a procurement database or records for contacts including data on what had been procured, value of procurement, and who has been awarded contracts. All central government institutions do not submit their procurement performance reports on time to the FPPA. Out of the 166 institutions expected to submit their reports (actual procurement by value as against the annual plan), 145, representing 87 percent by number and 81.5 percent by value, submitted their reports to the FPPA. The accuracy and completeness of the data is questionable, as they were not verified by the external auditor nor independently by FPPA.

Dimension score = D

PI-24.2 Procurement methods

168. The federal government's public Procurement and Property Administration Proclamation No. 649/2009 states six methods of procurement to be used by every central government institution: (a) open bidding, (b) request for proposal, (c) two-stage tendering, (d) restricted tendering, (e) request for quotation, and (f) direct procurement. Public bodies may use a method other than open bidding only where conditions for use of such other method stipulated under the Proclamation are satisfied; otherwise open bidding is the default method for procurement.

169. According to the 2017/2018 performance report of the FPPA, out of 166 central government institutions that are expected to submit their report, 145 have reported their procurement performance. In 2017/2018, total procurement expenditure of ETB 84.02 billion was incurred by central government institutions on five methods of procurement; there are no data on two stage tendering (not significant by value). The breakdown of procurement expenditure is shown in Table 3.21.

Table 3.21: Procurement method data in ETB billion for EFY 2010 (GC 2017/2018)

	Procurement method	Amount in ETB billion for EFY 2010	Share (%)
1	Open bidding	77.46	92.19
2	Restricted tendering	3.14	3.74
3	Request for proposal	1.40	1.67
4	Request for quotation	0.80	0.95
5	Direct procurement	1.22	1.45
Total		84.02	

170. Based on the above data provided by the FPPA, open competitive bidding (ETB 77.46 billion) represents 92.19 percent of total central government procurement.

Dimension score = A

PI-24.3 Public access to procurement information

171. Based on the public procurement and property proclamation and procurement directive of the federal government, the annual or quarterly procurement plan, bidding opportunities, contract awards, and data on resolution of procurement complaints should be made available to the public through appropriate means. In practice, bidding opportunities are made available to the public on the FPPA website as well as in newspapers. However, the procurement plan, contract awards, purpose of the contract, and procurement complaint resolutions are not made available to the public through any appropriate means. Also available to the public is the procurement law and all related procurement directives. As shown in Table 3.22, only two out of the six key procurement information is made available to the public through appropriate means.

Table 3.22: Public access to procurement information

Element/ requirements	Met (Y/N)	Evidence used/ comments
1. Legal and regulatory framework for procurement	Yes	Public procurement proclamations and directives are publicized through the website of the FPPA.
2. Government procurement plan	No	Each BI prepares and submits to the FPPA the annual procurement plan at the beginning of the budget year, but these are not published.
3. Bidding opportunities	Yes	Bids are announced through newspapers (the Ethiopian herald, Addis Zemen, and so on), FM radio, TV channels, and the website of the FPPA (http://www.ppa.gov.et/)
4. Contract awards (purpose, contractor, and value)	No	Contract awards with the purpose of the contract, value of the contract, and the name of the contractor are not published.
5. Data on resolution of procurement complaints	No	Information on procurement complaint resolution is not published even though it is available at the FPPA.
6. Annual procurement statistics	No	Annual procurement statistics, though prepared by the FPPA, are not published.

Dimension score = D

PI-24.4 Procurement complaints management

172. Based on the Procurement and Property Administration Proclamation No. 649/2009, an independent complaint and functional system should be available. The law provides for two stages for administrative complaint resolutions: first within the internal structure of the central government institution and second to the complaints review board. The proclamation also allows redress in the law courts if aggrieved parties are dissatisfied. The Complaint Review Board is composed of five members: (a) one representative from the MoF, (b) one representative from the Chamber of Commerce, (c) one representative from Public Enterprise Agency, (d) one representative from the ministry or central government institution concerned, and (e) the Director General of the FPPA or his/her authorized representative. The FPPA acts as the secretariat to the Complaint Review Board. While the Complaint Review Board is functional (please, refer to Table 3.23), it appears not to be independent on the basis of the composition of its membership; only one member (from the Chamber

of Commerce) is seen to be independent, with the remaining four are directly involved in procurement activities.

Table 3.23: Performance of Complaint Review Board and complaints submitted in the past three years

Budget year	Total complaints lodged	Complaints accepted	Complaints rejected		Complaints lodged on federal PEs	Transferred to next budget year
			BIs were right	Procedural irregularities		
2015/2016	206	37	38	86	31	14
2016/2017	233	46	45	104	24	14
2017/2018	250	60	66	78	26	20

Source: FPPA annual reports.

173. The number of cases submitted to the Complaint Review Board has increased in the past three years due to awareness creation. Those who are not satisfied by the decision of the board have the right to the court. In FY2017/2018, two cases were resolved in the law court. According to the Chamber of Commerce, the procurement process is not independent; also, the private sector has little or no confidence in the administrative complaints resolution mechanism, leading to fewer complaints been lodged for fear of victimization. As indicated in Table 3.24, while the complaints review system meets four elements in line with the PEFA requirement, it fails to meet criterion (1) which is required to score above 'D'.

Table 3.24: Criteria for independent complaint system

Element/requirements	Met (Y/N)	Evidence used/comments
Complaints are reviewed by a body which		
(1) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	No	Only one member (from the Chamber of Commerce) is seen as independent. The remaining four are directly involved in public procurement.
(2) Does not charge fees that prohibit access by concerned parties;	Yes	No fees are charged for filing procurement complaints.
(3) Follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Yes	The process is clearly defined by the Public Procurement and Property Administration Proclamation No. 649/2009 and the Public Procurement Directive of 2009.
(4) Exercises the authority to suspend the procurement process;	Yes	The Complaint Review Board suspends all procurement processes until completion of resolution.
(5) Issues decisions within the time frame specified in the rules/regulations; and	No	The time frame specified in the law is sometimes not strictly followed for different reasons: delay in submitting the necessary document by central government institution, absenteeism of the board members, and so on.
(6) Issues decisions that are binding on every party (without) precluding subsequent access to an external higher authority).	Yes	The decisions made by the board are binding on all parties (but does not preclude subsequent access to a court).

Dimension score = D

PI-25 Internal controls on non-salary expenditure

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-25 Internal controls on non-salary expenditures	**B**	**Scoring method M2**
PI-25.1 Segregation of duties	A	The various financial management manuals indicate the segregation of duties between the various processes in resource management including cash, supplies, fixed assets, payroll, procurement, and other related PFM functions. This is true for all central government institutions.
PI-25.2 Effectiveness of expenditure commitment controls	C	Budgetary controls are generally effective and expenditure commitments generally are to the extent of projected cash availability. There are certain instances where BIs may not be able to pay committed expenditures to contractors due to unavailability of cash.
PI-25.3 Compliance with payment rules and procedures	B	Most of the payments are compliant with payment procedures. Most of the exceptions, though they are subject to noncompliance audit findings of internal auditors and OFAG, are authorized by the respective heads of central government institutions. Irregularities represent about 2% of the total expenditure.

174. This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The indicator assesses segregation of duties, the effectiveness of expenditure commitment controls, and compliance with payment rules and procedures.

PI-25.1 Segregation of duties

175. This dimension assesses the existence of the segregation of duties, which is a fundamental element of internal control. As such, it prevents an employee or group of employees from being in a position both to perpetrate and/or conceal errors or fraud in the normal course of their duties.

176. The Financial Administration Proclamation No. 190/2010 as amended by Proclamation No. 970/2016, the Financial Administrator Regulation No. 190/2010, and the various manuals produced by the MoF outline the internal control procedures and the segregation of duties between budgeting, reporting, auditing, cash management, accounting, and recording. The following are some of the financial management regulations and procedure manuals that delineate segregation of duties:

- Financial administration regulation by the Council of Ministers (Regulation 190/2010)
- Administrative Penalties (Procedure) for Non-compliance to Financial Accountability (48/2017)
- Public Finance Transparency and Accountability Manual (51/2018)
- Cost Reduction Strategy Manual (2017)
- Guideline/manual for the procurement of goods and services (2011)
- Manual for cash management (2011)
- Cash disbursement manual (2011)
- Accounting procedure (2011)

- Budget Administration Manual (2011)
- Financial accountability (2011)
- Internal audit manual (2011)
- Internal control standards (2011)
- Property administration (2011)
- Handover procedure (2011)
- Procedure on guarantor (2011)
- Procurement (2010)
- Federal Government of Ethiopia Accounting Manual

177. There is a clear organizational structure and segregation of duties in central government institutions (federal government budget entities, and EBUs). The annual consolidated audit report of OFAG recommended the segregation of certain functions in property administration of 17 BIs for FY2016/2017 (EFY 2009) out of 173 BIs that need to strengthen the internal control procedure on inventory and fixed assets. Similar findings were indicated in EFY 2007 and 2008 (2015/2016) in 21 and 22 BIs, respectively.

Dimension score = A

PI-25.2 Effectiveness of expenditure commitment controls

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

179. IFMIS does not allow spending beyond the approved budget; however, it does not have a control feature at the expenditure commitment level.[9] BIs are allowed to commit to the extent of six months and are required to submit cash flow forecasts quarterly (PI-21). Most of the BIs visited indicated that they do not commit beyond the drawing limits set by Treasury where the drawing limit ensures cash availability. Some BIs reported instances of unavailability of cash to pay their contractors.[10] This is partly related to the political instability during 2016/2017 and 2017/2018 where actual cash flow may not have been in line with projections. As indicated in PI-3, the revenue shortfall was about 6 percent. It is not clear whether long outstanding payables reported by OFAG and internal audit units are attributed to limitation in commitment control. EBUs also control commitments to the extent of approved budget and cash availability (Road Fund and Industrial Development Fund). Internal audit units at EBUs also monitor compliance to commitment control. As indicated above, both IFMIS and IBEX are not used for commitment control. The control is outside the accounting software. When there are overspendings due to the limitation with the nonautomated commitment control procedure, variances are adjusted by issuing budget transfers between line items.

Dimension score = C

[9] IFMIS team, MoF.
[10] ERA.

PI-25.3 Compliance with payment rules and procedures

180. This dimension assesses the extent of compliance with the payment control rules and procedures based on available evidence. Generally, most of the BIs comply with payment rules and procedures. Majority of the exceptions were approved and authorized by the relevant heads of central government institutions. Though the exceptions were authorized, the internal audit reports of these institutions and the annual audit reports of OFAG indicate that some central government institutions are not complying with payment rules and procedures (refer to PI-30.4). The common internal control irregularities include expenditures recorded without the appropriate supporting documentation, cash shortages, long outstanding receivables and payables, uncollected revenues, and acquisition of goods and services without complying with public procurement procedures and rules.[11] Financially, these irregularities represent about 2 percent (refer to PI-30.3) of the total expenditure.[12]

Dimension score = B

Ongoing reforms

181. None.

PI-26 Internal audit

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-26 Internal audit	**D+**	**Scoring method M1**
PI-26.1 Coverage of internal audit	A	Central government units including EBUs representing about 97% of the central government expenditure and close to 100% of central government revenue have internal audit units.
PI-26.2 Nature of audits and standards applied	C	Internal audit is mainly focused on compliance audit rather than systemic audit. All visited government institutions have submitted annual audit plans to the heads of their respective BIs and copies were shared with the Inspection Directorate of the MoF.
PI-26.3 Implementation of internal audits and reporting	C	Visited entities implemented between 75% and 100% of their plan. As evidenced by submitted audit reports from 85.7% of the entities, it can be deduced that majority of the programmed audits were implemented.
PI-26.4 Response to internal audits	D	Audited public bodies representing about 26% of the total central government expenditure responded on time.

182. International good practice in PFM recommends the operation of internal audit as a service to management, with the function to identify ways of correcting and improving systems, so as to improve the efficiency, economy, and effectiveness of the delivery of public services.

183. The MoF has the responsibility of ensuring appropriate internal controls are in place for safeguarding of public resources. According to Proclamation No. 970/2016, the MoF has the power to supervise and monitor the finances of the federal government, conduct audit of public bodies as deemed necessary, ensure appropriate financial management systems are in place, oversee the

[11] In EFY 2010 the Inspection Directorate report indicated that 29 BIs spent about ETB 63.7 million without sufficient supporting documents and 18 BIs spent ETB 31 million for the acquisition of goods and services without complying to the procurement rules and procedures. The 2010 report of the Auditor-General (AG) also indicated that about ETB 506 million was paid in EFY 2009 by 68 organizations, where most of them are universities.

[12] According to OFAG, the total amount of audit findings represents about ETB 6.57 billion for EFY 2017/2018, which represents about 2 percent of the total actual expenditures of about ETB 303 billion.

internal audit function of public bodies, monitor measures taken on internal audit findings, report the findings of the internal audit to the Council of Ministers, and follow up on the action taken by the Council. The Inspection Directorate of the MoF oversees the internal audit function across all BIs.

184. According to Proclamation No. 970/2016 (Article 7), internal audit units are functionally accountable to their BIs and administratively to the Inspection Directorate. Accordingly, the recruitment of internal auditors is processed largely by the Inspection Directorate unless the task is delegated to the BIs. The MoF has developed various manuals on internal audit:

- Internal Audit Manual - 2004
- Internal Audit Training Module - 2005
- Internal Audit Reporting Procedure Manual in Amharic - 2010
- Performance Audit Manual and Implementation Guide - 2013 (Extracted from Performance Audit Manual of OFAG)

185. According to the same proclamation, each BI is responsible for ensuring that the internal audit function is appropriately staffed with trained and qualified manpower; internal audits are carried out efficiently, effectively, and economically; and appropriate measures are taken in accordance with the report of the external audit or internal audit.

PI-26.1 Coverage of internal audit

186. This dimension assesses the extent to which government entities are subject to internal audit. All central government institutions (about 189) have IADs. Central government units, including EBUs,[13] representing about 97 percent[14] of the total expenditure and close to 100 percent of revenue collections, have internal audit units. IADs report their audit findings quarterly to their respective heads of central government institutions and to the Inspection Directorate of the MoF. The internal auditors are also responsible for the audit of donor-funded projects. All the visited IADs conducted financial and compliance audits and submitted audit reports quarterly. For the four visited central government institutions, the financial audit coverage for Treasury funds is 100 percent. Donor-funded projects are also audited. The coverage for donor-funded projects ranges from 25 percent to 100 percent depending on the staffing size of the internal audit unit. The ERCA conducts audit of revenue including investigative audit, domestic tax revenue, and post-clearance audit.

Dimension score = A

PI-26.2 Nature of audits and standards applied

187. This dimension assesses the nature of audits performed and the extent of adherence to professional standards.

188. The Internal Audit Manual issued in 2004 does not refer to conformity to international standards such as International Standards for the Professional Practice of Internal Auditing (ISPPIA). The latest edition of ISPPIA was issued in 2016. Most of the internal auditors are not aware of this standard. According to international standards,[15] the internal audit must evaluate and contribute to

[13] Industrial Development Fund, which represents 76 percent of the total EBU expenditure at the central government, is audited by the internal audit unit at the MoF. The Road Fund also has an internal audit unit (which represents 16 percent of the EBU expenditure).
[14] ETB 165 billion expenditure of central government out of the total expenditure of ETB 170 billion in 2017/2018.
[15] International Professional Practices Framework (IPPF) standard 2017, section 2100: Nature of Work.

the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal auditors are required to be independent and possess professional proficiency. An internal audit unit also needs to have organizational independence. The internal auditors are generally independent; heads of internal audit units visited[16] confirmed that they are organizationally independent. If internal auditors are suspended or threatened for termination because of their report, the Inspection Directorate of the MoF intervenes and has the power to reinstate them.[17]

189. A significant part of the internal audit activities is on compliance audit than systemic audit.[18] Systemic audits provide assurance of the adequacy and effectiveness of internal controls. The internal audit unit prepares the annual audit plan. Except for ERA, the managements of all visited central government institutions failed to prepare an organization-wide risk assessment framework. Some of the risk assessments and risk ratings are mainly focusing on compliance-related risks than risks from the effectiveness of existing internal control activities. According to the standard, the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, which must be periodically reviewed by the head of the internal audit unit and presented to the head of the government institution. Internal audit charters are yet to be implemented.

190. The internal audit charter requires internal auditors to possess the required proficiencies by obtaining appropriate certification and qualification. Almost all the internal auditors have Bachelor of Arts degree qualifications and some of them have master's degrees in a related field. There are very few certified internal auditors from internationally recognized bodies such as the Institute of Internal Auditors. Some of the internal auditors have skill gaps in internal auditing. The Inspection Directorate of the MoF provides training annually to fill the gap.[19]

191. There is no systematic and formal quality assurance process in most of the internal audit units. However, most of the internal audit units visited indicated that they have a practice of peer reviewing internal audit reports before releasing the final report. The Inspection Directorate of the MoF conducts a quality assurance exercise based on the internal audit reports submitted to it by internal audit units. The Inspection Directorate reviews the quality of the report in terms of presentation, the quality of the audit findings, and recommendations against the evidence presented in the report and other matters. Feedback is provided to the internal audit units after the review.

Dimension score = C

PI-26.3 Implementation of internal audit and reporting

192. This dimension assesses specific evidence of an effective internal audit (or systems monitoring) function, as shown by the preparation of annual audit programs and their actual implementation, including the availability of internal audit reports.

193. Visited internal audit units indicated that the number of planned audit activities are limited by the number of staffs they have. The vacant positions due to staff turnover in the MoA, MoE, MoH, and ERA represent 50 percent, 53 percent, 45 percent, and 40 percent, respectively. In December 2018, out of 1,794 internal audit positions in 164 central government institutions, 904 positions (49

[16] MoA, ERA, MoE, and MoH.
[17] The annual report of the Inspection Directorate indicated incidents where an auditor has been reinstated to his position after the Inspection Directorate investigated the matter and found that the auditor has been threatened for termination because of his audit report.
[18] Some findings may be cited on the effectiveness of certain internal control procedures from compliance and performance audits of internal audit units. However, this does not represent the conduct of systemic audit.
[19] In 2017/2018, the Inspection Directorate trained about 160 internal auditors.

percent) were vacant. The Inspection Directorate of the MoF also indicated that the number of internal audit positions approved for certain government institutions is insufficient in relation to the amount of budget allocated to them.[20]

194. According to the report of the Inspection Directorate, 171 public bodies (representing 85 percent of central government expenditure) submitted first, second, third, and fourth quarter reports of EFY 2010 (2017/2018) before the end of the fiscal year. The implementation rate of programmed audit by the visited public bodies ranges between 75 percent and 100 percent, for example, ERA (83 percent), MoH (93 percent), MoE (100 percent), MoA (75 percent), and Road Fund (100 percent).[21] Information was not available for the PEFA team to determine the percentage of completed programmed audits for the last completed fiscal year at the central government level. About 92 percent of the internal audit units submitted four reports during EC 2010. These entities represent 85 percent of the total central government expenditure. Though data are not available to determine the extent of accomplishment of programmed audit, it is likely that more than 50 percent of the program audit plan was implemented.

Dimension score = C

PI-26.4 Response to internal audits

195. This dimension assesses the extent to which action is taken by management on internal audit findings.

196. The 2014 PEFA assessment indicated that Internal Audit Committee Operational Manual has been issued by the Inspection Directorate to be used by local governments (woreda level). The Internal Audit Committee established at the local government level is no longer operational. Article 13 of the amendment of the Financial Administration Proclamation No. 970/2016 requires public bodies to set up an independent audit committee either for each public body separately or for a group of public bodies, as the context requires, which supports the functions of internal audits. This is yet to be implemented. It is expected that the establishment of the Internal Audit Committee will enhance the timeliness and quality of the implementation of the audit recommendation and reduce the recurrence of audit findings. The same proclamation (Article 72) stipulates penalties on heads of central government institutions if they fail to respond and act on audit recommendations. To operationalize this law, the MoF issued an administrative procedure Directive No. 48/2017.

197. Timeliness of management response to internal audit findings varies among central government institutions. According to the MoA, all auditees responded within 30 days. In the MoE, most of the management responded on time, within 40 days. However, only 28 percent of the universities are responding on time.[22] According to the Internal Audit Unit of ERA, most of the auditees are not responding on time. According to the annual report of the Inspection Directorate of the MoF, out of the 183 public bodies, 171 submitted audit reports. Out of the 171 who submitted the report, 150 were expected to respond to the audit findings; only 81 (out of 150) public bodies, which represents 54 percent in terms of number of public bodies and 26 percent in terms of central government expenditure, responded on time to audit queries.

Dimension score = D

[20] EFY 2010 performance report of Inspection Directorate - MoF.
[21] The combined budget of these four line ministries is about 33 percent of the central government budget.
[22] Out of the 42 universities audited by the Internal Audit Unit of the MoE, 12 universities respond on time.

PILLAR VI. Accounting and reporting

PI-27 Financial data integrity

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-27 Financial data integrity	**B**	**Scoring method M2**
PI-27.1 Bank account reconciliations	B	Treasury bank reconciliation is done on a monthly basis within four weeks by the Accounts Department at the MoF and likewise for budget units and extra-budgetary entities.
PI-27.2 Suspense accounts	NA	There are no suspense accounts.
PI-27.3 Advance accounts	C	In most cases, advance accounts reconciliations at the MoF are done on annual basis within two months of the end of the fiscal year while preparing the annual financial statements. Huge outstanding balances remain uncleared; in 2017/2018 they amounted to ETB 70.9 billion.
PI-27.4 Financial data integrity process	B	In the case of IFMIS, the accounting software prompts for change of password periodically. However, IBEX (used by two-thirds of budget units) does not prompt for password change. However, audit trail exists in both systems.

198. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions. Dimension 27.1 assesses the extent and frequency of bank reconciliations for the central government accounts, dimension 27.2 measures reconciliation of suspense accounts, dimension 27.3 measures the frequency of reconciling advance accounts, and dimension 27.4 measures the financial data integrity processes.

PI-27.1 Bank account reconciliations

199. Treasury bank reconciliations are done for all active bank accounts of the BIs and the EBUs on a monthly basis by the Accounts Department at the MoF within four weeks after the end of the previous month. The public bodies visited for this dimension include the MoA, MoE, MoH, and ERA. All have frequent active bank accounts' reconciliation on a monthly basis within four weeks after the preceding month.

Dimension score = B

PI-27.2 Suspense accounts

200. There are no suspense accounts in central government financial statements.

Dimension score = NA

PI-27.3 Advance accounts

201. The MoF as well as sectors and public bodies such as the MoE, MoH, ERA, and MoA perform advance accounts reconciliations on a yearly basis within two months after the end of the fiscal year while preparing their annual financial statements. Huge advance balances remained uncleared; these amounted to ETB 70.9 billion as of June 2018.

Dimension score = C

PI-27.4 Financial data integrity process

202. In the case of IFMIS, the accounting software prompts for change of password every two or three months, whereas for IBEX although a password is required to log into the system, one can use the same password for as long as one wants. However, audit trail exists in both systems. One concern with regard to financial data integrity relates to IBEX (two-thirds of budget units are on this system), where the system fails to prompt users to change their passwords periodically. There are also data accuracy issues in terms of transporting data from IFMIS to IBEX for the preparation of consolidated financial statements, resulting in incomplete and inaccurate data.

Dimension score = B

Ongoing reforms

Migrating from IBEX to IFMIS

203. The government is migrating to IFMIS, with about a third coverage; this is expected to improve data security and integrity. It was noted that IFMIS is a more superior and modern system compared with IBEX and has several advantages: meets international standards for interfacing/integrating with other systems; has procurement included in the property administration module; can accommodate modified and accrual accounting methods; has an easier fund management system; has easier budget and cash management, bank practice, and reconciliation; and can be integrated with bank and tax systems. In addition, audit software can be integrated/interfaced with IFMIS to strengthen the oversight element in the software. IFMIS has been rolled out to 67 sites as of December 2018; based on the phased rollout plan, this is the first phase. Training and capacity-building programs on PFM are also ongoing. In spite of the ongoing reforms, a number of challenges have been identified that may hinder the success of the IFMIS rollout: Internet connectivity challenges, the time frame for deploying IFMIS to woredas, technical capacity of woreda officials, and compatibility between IFMIS and IBEX, among others.

PI-28 In-year budget reports

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-28 In-year budget reports	**D**	**Scoring method M1**
PI-28.1 Coverage and compatibility of reports	D	Reports received from the sectors compare budget versus actual; however, there is no consolidated report prepared at the central government level that compares budget versus actual.
PI-28.2 Timing of in-year budget reports	D	No consolidated budget execution reports are prepared at the federal level.
PI-28.3 Accuracy of in-year budget reports	NA	No consolidated budget execution reports are prepared at the federal level.

204. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with the budget coverage and classification to allow monitoring of budget performance and if necessary, timely use of corrective measures. It contains three dimensions. Dimension 28.1 assesses coverage and compatibility of reports, dimension 28.2 assesses timing of in-year budget reports, and dimension 28.3 assesses accuracy of in-year budget reports.

PI-28.1 Coverage and compatibility of reports

205. Monthly detailed reports are prepared by BIs and submitted to the MoF. The reports include budget execution by detailed economic classification, source of funds, payables, receivables, transfers, and trial balances. Payables (creditors) represent outstanding amounts due on delivered supplies, services, and work done. Bank statements and bank reconciliation statements are also annexed to the reports. BIs separately report donor-funded expenditures on a quarterly basis in a format agreed with the donors. Although the IBEX and the IFMIS accounting systems are capable of producing budget execution reports, there is no consolidated report prepared at the federal government level that compares budget versus actual. In-year fiscal reporting does not include outturns for revenue, expenditures, and commitments against approved/revised budget, even though reports received from the BI compare budget versus actual. Furthermore, the monthly reports are not used to analyze BIs' monthly budget performance.

Dimension score = D

PI-28.2 Timing of in-year budget reports

206. No consolidated budget execution reports are prepared at the federal level. BIs prepare financial reports that compare budget versus actual and submit to the MoF monthly reports two weeks after the end of the month.

Dimension score = D

PI-28.3 Accuracy of in-year budget reports

207. No consolidated budget execution reports are prepared by the MoF.

Dimension score = NA

PI-29 Annual financial reports

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-29 Annual financial reports	**C+**	**Scoring method M1**
PI-29.1 Completeness of annual financial reports	C	The annual financial statements of the federal government for the last completed fiscal year 2016/2017 include information on approved budget, revenue, expenditure, cash balances, and financial liabilities, including medium- and long-term obligations, and are supported by a reconciled cash flow statement. There is no information on tangible assets and guarantees in the annual financial statements.
PI-29.2 Submissions of reports for external audit	B	The EFY 2009 financial statement was submitted to the auditors within six months after the end of the fiscal year.
PI-29.3 Accounting standards	C	No specific international accounting standard is applied in the preparation of the public accounts of the federal government. However, the national standards as prescribed by law are used consistently over time.

208. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is critical for accountability and transparency in the PFM system. It contains three dimensions: dimension 29.1 on

completeness of annual financial reports, 29.2 on submissions of reports for external audit, and 29.3 on the accounting standards used to prepare financial statements.

PI-29.1 Completeness of annual financial reports

209. The preparation and reporting of public accounts of the federal government is governed by Financial Administration Proclamation No. 648/2009, Articles 59 and 60. According to the proclamation, the MoF shall prepare consolidated public accounts for each fiscal year, which shall embody the audited accounts of public bodies, and submit them to the AG. The annual financial statements for the federal government for the last completed fiscal year 2016/2017 include information on approved budget, revenue, expenditure, cash balances, and financial liabilities, including medium- and long-term obligations, and are supported by a reconciled cash flow statement. The consolidated financial statements also contain statement of financial performance, statement of financial position, statement of cash flows, trial balances, revenue and expenditure outturns, list of reporting units, summary of sources of funds, disclosures on accounting policy, and additional notes. There is no information on tangible assets and guarantees in the annual financial statements. The information in the financial statement enables comparability with approved budget. However, the financial statements do not include the financial statements on the EBUs and public enterprises.

Dimension score = C

PI-29.2 Submissions of reports for external audit

210. The MoF submits financial statements to the auditors within six months after the end of each fiscal year. The 2016/2017 (EFY 2009) financial statement was submitted on December 27, 2017, to the external auditors, that is, within six months after the end of the fiscal year, June 30, 2017.

Dimension score = B

PI-29.3 Accounting standards

211. No specific international accepted accounting standard is applied in the preparation of the public accounts of the federal government. The annual financial statements are prepared on a historical cost basis, under a modified double-entry accounting system. It is a combination of cash and accrual bases of accounting. This system is applied in the federal government and all national and regional states. The financial statements of the federal government for FY2014/2015, 2015/2016, and 2016/2017 were prepared consistently based on modified cash basis which is described in the MoF financial management manual and applicable PFM law. With respect to adopting international financial reporting standards, the IMF review recommended adopting the cash basis International Public Sector Accounting Standards (IPSAS) as the first step to facilitate the eventual move to accrual accounting as the most appropriate approach; this is yet to be implemented.

Dimension score = C

PILLAR VII. External scrutiny and audit

PI-30 External audit

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-30 External audit	**C+**	**Scoring method M1**
PI-30.1 Audit coverage and standards	B	The financial audit covers 100% of federal government BIs. EBUs also have been audited during the last three fiscal years. The audit is conducted in accordance with ISSAI standards, and significant findings are highlighted.
PI-30.2 Submission of audit reports to the legislature	B	OFAG submitted consolidated audited annual financial statements of the Federal Government of Ethiopia within five months from the receipt of the reports from the MoF.
PI-30.3 External audit follow-up	B	Management response to audit findings is included in the audit report. The audited entity submits a comprehensive management letter, including evidence of action, as applicable.
PI-30.4 Supreme Audit Institution Independence	C	The SAI is independent in practice. The AG's budget is determined by the MoF within a financial ceiling in the same way as other BIs. OFAG does not have a systematic audit recommendation follow-up system.

212. This indicator examines the characteristics of external audit.

PI-30.1 Audit coverage and standards

213. This dimension assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards.

214. The Amendment to the Proclamation of the Federal General Auditor Re-establishment Proclamation No. 982/2016 and the Constitution of the Federal Democratic Republic of Ethiopia (1995) provide a broad mandate for the audit of all public accounts of the Federal Government of Ethiopia including private and public[23] organizations to protect the government and public interest.

215. OFAG conducts an annual audit of the consolidated accounts of the Federal Government of Ethiopia, as prepared and submitted by the Accounts Directorate of the MoF. It also audits the annual financial statements prepared and submitted by each public body. In addition, OFAG conducts performance audit. Under the Constitution, the AG is required to audit the use of federal subsidies to regions, even though this is part of the audit by the Regional AG. A single Audit Act was drafted in EC 2010 but has been held up in a committee of the HoPR since 2010. OFAG submits individual audited financial statements of public bodies which received adverse and disclaimer audit opinions and performance audit reports to the HoPR, though it is required by law to only submit one consolidated report to the HoPR.

[23] Proclamation No. 982/2016, Article 5, sub-article 4.

216. The audit coverage with respect to financial audit for the federal government is 100 percent in 2015/2016, 2016/2017, and 2017/2018.[24] Table 3.25 provides a highlight of OFAG's audit performance. The financial audit coverage is achieved with 67 percent staffing level. The total workforce at OFAG as of July 7, 2018, was 692, including 486 auditors. According to the structure of OFAG, 645 auditors are required. About 60 auditors (representing 12 percent of the total workforce) resigned during EFY 2009.[25]

Table 3.25: Performance appraisal of OFAG

EFY	Planned	Executed	Percentage	Remark
2010 (2017/2018)	173	173	100	Actually planned for 174 PBs; reduced to 173
2009 (2016/2017)	165 PBs and 48 branches	158 PBs and 44 branches by OFAG; 7 by the Audit Service Corporation (ASC)	100	7 additional PBs audited by the ASC
2008 (2015/2016)	153	145 by OFAG; 8 by the ASC	100	

Source: AG's speech EFY 2008, 2009, and 2010.
Note: PB = Public body.

217. The financial statements submitted by the MoF and audited by the AG are prepared on a modified cash basis of accounting using the historical cost convention. The annual consolidated financial statements of the Federal Government of Ethiopia are audited in accordance with the International Standard for Supreme Audit Institutions (ISSAI) standard and internal procedures of OFAG. The audited financial statements for EFY 2007, 2008, and 2009 received a qualified audit opinion. The financial statements do not include the stock of debtors, and hence, the audit on loans is limited to the loans received and paid during the period. The audit does not cover the available government investments and loans during the period. Table 3.26 shows the OFAG audit opinion on the audit of the accounts of central government institutions. The percentage of these institutions that received unqualified opinion reduced from 25 percent in 2014/15 to 14 percent in 2016/2017.

Table 3.26: OFAG audit opinions

Audit opinion	No. of PBs FY2014/15	No. of PBs FY2015/2016	No. of PBs FY2016/2017
Unqualified	36 (25%)	27 (17%)	25 (14%)
Qualified	66 (45.5%)	73 (46.2%)	87 (50.2%)
Disclaimer	6	6	8
Adverse	37 (25.5%)	53 (33.5%)	53 (30.6%)
Accounts not closed timely	1	—	—
	145	158	173

Source: Annual audit reports of OFAG on the consolidated fund.
Note: PB = Public body.

218. In addition to the financial audit, OFAG also conducted performance audits and issued 18 reports to the HoPR in EFY 2007, 18 reports in EFY 2008, and 20 reports in EFY 2009.

[24] The audit coverage of the Ministry of Defense and National Intelligence and Security Service by OFAG is estimated to be 30–40 percent of the total expenditure as the laws grant the heads of these BIs to disallow some of the documents for audit review due to "the sensitivity of the documents to the national security."
[25] According to a peer review report issued in 2016, the total number of staff leaving and the total number of new staff during 2015 were 20 percent and 25 percent, respectively, with overall vacant posts of 50 percent. Low salary scale is said to be the main factor for employee turnover.

219. A quality assurance review was also conducted by the African Organization of English-Speaking Supreme Audit Institutions (AFROSAI-E) to evaluate the status of OFAG compliance with international standards.[26] The assessment indicated that OFAG has been applying a sound audit methodology in line with ISSAI standards but with certain limitations. The assessment identified areas which need improvements including the extent of involvement of engagement leader for quality on audits, computation of materiality, determination of sample size, a tendency not to rely on the works of internal auditors and planning, designing, performing and concluding on test of control.

Dimension score = B

PI-30.2 Submission of audit reports to the legislature

220. This dimension assesses the timeliness of audit report submissions on budget execution to the legislature as a key element in ensuring the timely accountability of the executive to the legislature and the public.

221. In accordance with Article 13 of Proclamation No. 982/2016, OFAG should submit the audit report to Parliament within five months from the receipt of the financial statements from the MoF. The MoF should submit the consolidated annual financial statements to OFAG within six months from the end of the budget year. In practice, audit reports are submitted to Parliament within five months of receipt of the financial statements. OFAG receives draft financial reports from the MoF within six months from the end of the fiscal year. Table 3.27 outlines submission dates of OFAG audit reports to Parliament.

Table 3.27: Submission of OFAG audit report to Parliament

Financial year	Date of receipt of annual financial statement by OFAG	Audit report submission to Parliament due date by law (according to proclamation)	Actual date of submission of audit report to Parliament	Remarks (delay or on time)
2009	11/4/2010	11/09/2010	7/9/2010	On time ***4 months 26 days***
2008	28/04/2009	28/09/2009	14/9/2009	On time ***4 months 16 days***
2007	29/04/208	29/09/2008	4/9/2008	On time ***4 months 16 days***

Dimension score = B

PI-30.3 External audit follow-up

222. This dimension assesses the extent to which effective and timely follow-up on external audit observations is undertaken by the executive of the audited entity.

223. All audited public bodies (central government institutions) submitted a response to the audit recommendations of OFAG for the audit of their annual financial statement for EFY 2007, 2008, and 2009. Some of them have submitted action plans for the implementation of the recommendations. Table 3.28 summarizes the number of auditees and action plan submitted.

[26] Quality Assurance Review, SAI Ethiopia, AFROSAI-E, 2017. The review was funded by the World Bank.

Table 3.28: Audit follow-ups

Budget year EC	No. of auditees	Response to audit report	No. of auditees who submitted action plan	Percentage of auditees who submitted action plan
2009	173	All	71	41
2008	158	All	46	29
2007	146	All	74	51

224. OFAG also follows up on the audit findings of EBUs. The Industrial Development Fund (which represents 76 percent of the total expenditure of all EBUs and audited by OFAG) is also subject to audit follow-up for any audit findings associated with revenue collection and expenditure. Though all the audited entities responded to the audit report and some of them have shown improvements, according to the report of the AG, some of the audited entities did not act on the findings. About 68 public bodies and their 11 branches did not take appropriate action based on the audit findings reported in the audit report of EFY 2008.

225. In accordance with Proclamation No. 982/2016, Article 20 (1), the AG shall notify the HoPR, the Federal Ethics and Anti-Corruption Commission (FEAC), and the Attorney General, if he has reasons to believe that an offence has been committed during the course of his audit. According to the report of the AG (AG's speech on the audit of EFY 2010), no meaningful action was taken by the Attorney General on those who failed to act on audit findings.

226. Similar findings were reported in the last completed fiscal year audit reports. Table 3.29 shows the most common audit findings reported by the AG.

Table 3.29: Repetitive audit findings

	Audit Findings	EFY 2009	EFY 2008	EFY 2007
	Cash shortages	ETB 0.927 million, 6 PBs	ETB 14 million, 1 PB	ETB 0.19 million
	Difference between records and cash count	ETB 2.9 million, 3 PBs	ETB 379 million	ETB 284 million
	Long outstanding receivables	ETB 5.8 billion, 116 PBs	ETB 5.2 billion, 113 PBs	ETB 2 billion, 94 PBs
	Collection – uncollected tax revenue	ETB 1.5 billion	ETB 1.1 billion	ETB 118 million
	Unclaimed compensation based on procurement contracts	ETB 77 million, 21 PBs	ETB 226 million, 19 PBs	ETB 501 million, 19 PBs
	Uncollected tax arrears	ETB 6.2 billion	ETB 4 billion	ETB 205 million
	Unreported revenue	ETB 367 million, 13 PBs	ETB 196 million, 11 PBs	ETB 77 million, 6 PBs
	Disbursement without sufficient supporting documents	ETB 506 million, 68 PBs	ETB 236 million, 59 PBs	ETB 221 million, 24 PBs
	Spending overriding rules and procedures	ETB 189 million, 98 PBs	ETB 99 million, 91 PBs	ETB 61 million, 56 PBs
	Over payment	ETB 9 million, 22 PBs	ETB 19 million, 18 PBs	ETB 15 million, 9 PBs
	Procurement without competitive bidding while it should have been according to rules and regulations	ETB 193 million, 97 PBs	ETB 185 million, 79 PBs	ETB 546 million, 77 PBs
	Purchases not evidenced by goods receiving reports	ETB 83 million, 9 PBs	ETB 21 million, 14 PBs	ETB 9 million, 13 PBs
	Advance payments recorded as expenditure	ETB 41.96 million, 10 PBs	ETB 99 million, 9 PBs	ETB 13 million, 2 PBs

	Audit Findings	EFY 2009	EFY 2008	EFY 2007
	Expenditure recorded as expense without supporting evidence	ETB 110 million, 19 PBs	ETB 36 million, 15 PBs	ETB 110 million, 25 PBs
	Construction expenditures paid with approval of 'consultants' without a consulting license	ETB 267 million, 5 PBs	ETB 260 million, 8 PBs	ETB 834 million
	Unrecorded expenditures	ETB 24.6 million, 4 PBs	ETB 176 million, 12 PBs	ETB 17 million, 4 PBs
	Long outstanding payables	ETB 789 million, 74 PBs • Ages between 1 and 5 years - ETB 113 million • Age not determined - ETB 580 million	ETB 1.88 billion, 73 PBs	ETB 1 billion, 55 PBs
	Overspending from the approved budget limit without prior approval for budget transfer in accordance with the rules and regulations	ETB 898 million, 41 PBs	ETB 177 million, 52 PBs	ETB 746 million, 41 PBs
	Property administration • No identification number • No reconciliation with the count • No physical count • No segregation of duties for property control • Vehicle without title deed	 • 30 PBs • 19 PBs • 19 PBs • 17 PBs • 30 PBs	 • 38 PBs • 39 PBs • — • 22 PBs • 27 PBs	 • 29 PBs • 24 PBs • 15 PBs • 21 PBs • 32 PBs

Note: PB = Public body.

227. Each year, OFAG monitors the implementation of audit recommendation using an Excel spreadsheet, as part of its audit engagement program before undertaking subsequent audits. OFAG is developing an in-house software called Audit Finding Implementation Tracking system to enhance its capability for follow-ups; this is expected to be operational in 2019.

Dimension score = B

PI-30.4 Supreme Audit Institution independence

228. This dimension assesses the independence of the Supreme Audit Institution (SAI) from the executive. The basis of the assessment on independence is the principles set out in the International Standard on Supreme Audit Institutions (INTOSAI), as stipulated in the Mexico Declaration on SAI Independence.

229. OFAG is a member of the AFROSAI-E. INTOSAI conducted a peer review on the independence of OFAG in 2016.[27] The review indicated that six of the eight principles of independence are met. The two principles that were not fully met were the existence of a follow-up mechanism and the limited financial, managerial, and administrative autonomy and availability of appropriate resources.

Dimension score = C

[27] Peer Review on the Independence of the Office of the Federal Auditor General Ethiopia, 2016 by INTOSAI. The review was funded by Austrian Development Cooperation.

Table 3.30: Independence of OFAG

Element/requirements	Met (Y/N)	Evidence used/comments
The existence of an appropriate and effective legal framework and of de facto application provisions of this framework	Yes	**Article 101 of the 1995 Constitution provides the independence of the AG from the executive.** The Constitution indicated that the AG is appointed by the HoPR and that it reports its audit findings and recommendation to the HoPR and submits the OFAG budget to the HoPR for approval. In addition, Proclamation No. 982/2016 provides the AG the authority to have unlimited access to government records. The removal of the AG is only with certain conditions such as apparent poor health condition, incompetence, corruption, and pension age. However, resignation of the AG should only be effected upon two-thirds of the votes of the HoPR. A single office term for the AG and his/her deputy is 6 years and they may be appointed for another term.
Independence of OFAG head and its members including security of tenure and legal immunity	Yes	Article 19(3) of Proclamation No. 982/2016 provides immunity to the AG, Deputy AG, and the auditors that they will not be liable in exercising the SAI's duty in good faith. No civil or criminal proceedings shall be instituted on the basis of an audit report against the AG or his/her staff.
Broad mandate and full discretion in delivering the tasks entrusted to the SAI	Yes	The 1995 Constitution, Article 101(2), indicates that the AG shall audit and inspect the accounts of ministries and other agencies of the federal government. In addition, Proclamation No. 982/2016 (Article 5) indicated that OFAG is mandated to undertake audits of finance, performance, environment, IT, control, special, and other audits of the offices and organizations of the federal government including donations, grants, and loans.
Unrestricted access to information	Partly met	Proclamation No. 982/2016 stipulates that an employee or official of the auditee, upon request by the Federal AG, auditors of OFAG, or representatives of the Federal AG, shall, forthwith, make available correct and complete books, documents, ledgers, vouchers, and all other documentary or oral evidence which the auditors deem useful and necessary for auditing. Article 21 indicates that denial of documents and information requested by the Federal AG or his/her staff is punishable by law. **Exceptions:** According to Proclamation No. 809/2013 on the Defence Forces of the Federal Democratic Republic of Ethiopia, Article 71(3), and Proclamation No. 804/2014 to Re-establish the National Intelligence and Security Service, Article 12 (e), the head of the ministry may not disclose to anybody manpower profile, books of accounts, and payment documents which he/she has designated as top secret for the purpose of defending national interest and for security. OFAG's access to these two BIs is limited (estimated audit coverage in terms of finance is between 30% and 40% of the total budget of the respective BIs). The annual expenditure of these two BIs is less than 4% of the total budget of the Federal Government of Ethiopia. The lack of clear guidelines or independent validation or known standards or guidance on the manner in which documents are designated as 'top secret' results in inconsistency in the

Element/requirements	Met (Y/N)	Evidence used/comments
		extent of document access between departments or branches of the same institution.
The right and obligation to report its work and the freedom to decide the date and timing of audit reports and to publish and disseminate them	Yes	OFAG has no restriction on reporting results of its work. As required by law, it submits the consolidated audit reports once a year together with several performance audit reports to Parliament.
The freedom to decide the content and timing of audit reports and to publish and disseminate them	Yes	OFAG has the freedom to decide on the content and timing of audit reports and on their publication as stipulated in Article 101(2) of the Constitution and Article 13 (1) of Proclamation No. 982/2016.
Existence of follow-up mechanism on OFAG recommendation and its implementation	No/ partly	OFAG conducts follow-up of the previous year's audit findings and recommendations as part of the normal audit engagement process and does not have a systematic documented follow-up system.
Financial and managerial/ administrative autonomy and availability of appropriate human, material, and monetary resources	No	Article 13 of Proclamation No. 982/2016 provides a mandate to the AG to organize OFAG. Article 15 requires the quarterly appropriations of the approved budget of OFAG to be deposited into the accounts of OFAG in advance. In addition, Article 7 states that OFAG shall have four Deputy AGs. In May 2018, the Parliament enacted Regulation No. 8/2018: Administration of Employees of the OFAG, which provides OFAG independence with the budget issue and salary and benefits of staff. The regulation was issued on December 25, 2018. According to the regulation (Article 40 and 71), an independent audit commission which oversees the budget and organization structure, staff salary, and benefits will be established. The MoF will no longer set a ceiling and the Civil Service Commission will no longer advise the Parliament on OFAG's proposed staffing, grading, and benefit schemes. Salary is the main reason for staff turnover. It has also been indicated in the audit report of the AG (EFY 2009) that the per diem pay rate of auditors is too low. As the commission is yet to be established, this criterion is considered to be unmet at this stage

PI-31 Legislative scrutiny of audit reports

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-31 Legislative scrutiny of audit reports	**B**	**Scoring method M2**
PI-31.1 Timing of audit report scrutiny	A	The PAC scrutinized the audit report within 4 to 20 days of the receipt of the audit report from OFAG within the last three completed fiscal years.
PI-31.2 Hearings on audit findings	C	In-depth hearing is conducted on audit reports of a few audited entities.

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-31.3 Audit recommendations by the legislature	B	As part of its follow-up mechanism, the PAC demands all central government audited entities with adverse audit findings to submit action plans with timelines on how these entities intend to address the audit findings from OFAG as well as recommendations issued by the PAC. It also receives at least biannual updates on progress made in terms of implementation of its recommendations.
PI-31.4 Transparency of legislative scrutiny of audit reports	B	The hearing is recorded and broadcasted by the national television except for sensitive and high-level security issues that are held in camera. The PAC reports are tabled in the full chamber for debate and consideration. Brief summaries of the hearings are posted on the Facebook account of the HoPR. The full committee's report, though not published on the website, is obtainable at the Parliament's library.

230. This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. The assessment of this indicator is based on the audit reports submitted to the legislature within the last three years.

231. According to Article 101 of the 1995 Constitution of the Federal Democratic Republic of Ethiopia, the HoPR receives annual audit reports from OFAG. The HoPR has oversight powers over government bodies[28] in general and more specifically on audit findings. It is mandated to follow up and take appropriate measures. The Parliament is working on issuing a new law to strengthen its enforcement role and the prosecution role of the Attorney General. The draft new law is in response to the complaint of the AG regarding the delay in taking legal actions based on audit findings.

232. The PAC has no specific timeline to review the audit report of OFAG. It produces the annual plan and presents the performance report to Parliament (whole chamber) in June before recession. A new PAC, with 19 members, has been established in November 2018. The previous PAC had 25 members and was operational until June 2018.

PI-31.1 Timing of audit report scrutiny

233. This dimension assesses the timeliness of the legislature's scrutiny, which is a key factor in the effectiveness of the accountability function.

234. The PAC scrutinizes the audit report submitted by OFAG. As shown in Table 3.31, the PAC scrutinized the audit reports within 5 days for EFY 2007 (2014/2015) and 2008 (2015/2016) and within 19 days for EFY 2009 (2016/2017). While the information available meets the requirements for an 'A' score, the efficiency and effectiveness of the audit report scrutiny is questionable as 4 to 19 days are used for legislative scrutiny.

Table 3.31: Time between the receipt of reports by the PAC and completion of their review by the legislature

	EFY 2007	EFY 2008	EFY 2009
Date on which OFAG submits audit report to the HoPR	4/9/2008	14/9/2009	7/9/2010
Date on which the report is tabled to Parliament	9/9/2008	22/9/2009	16/9/2010
Date on which the PAC scrutinized the audit report	9/9/2008	22/9/2009	26/9/2010

[28] Article 55(17) and (18) of the Constitution of Federal Democratic Republic of Ethiopia, Article 47 of Working Procedures and Code of Conduct (Amendment) Proclamation No. 470/2005.

Source: OFAG.

Dimension score = A

PI-31.2 Hearings on audit findings

235. The PAC held hearings on the findings of the AG on the audit report of the consolidated fund and on the performance audits.[29] Hearings are conducted in the presence of the auditees and the representatives of OFAG. Minutes of the hearing are signed, and decisions are communicated to the audited entities through the Speaker of the HoPR.[30] The PAC conducts 15 to 18 hearings per year, as indicated in Table 3.32. In 2018/2019, 15 hearings were conducted, including 6 hearings on the consolidated annual financial statements.

Table 3.32: PAC hearings

Year audit report submitted to the PAC	2014/2015	2015/2016	2016/2017	2017/2018
Hearing conducted	**2015/2016**	**2016/2017**	**2017/2018**	**2018/2019**
No. of audit reports with adverse and disclaimer audit opinion	41	43	59	61
No. of hearings based on audit findings of the audit of consolidated financial statement	9	9	12	6
Percentage of hearings on adverse and disclaimer audit reports	22	21	20	10
No. of hearings on performance audit	8	7	6	9

Dimension score = C

PI-31.3 Audit recommendations by the legislature

236. Following from the PAC's review and hearing on OFAG's audit reports, the legislature issues its recommendations to the executive referencing remedial action to be taken. As part of its follow-up mechanism, the PAC demands all central government audited entities with adverse audit findings to submit an action plan with timelines on how these entities intend to address the audit findings from OFAG as well as recommendations issued by the PAC. In collaboration with OFAG, the PAC demands at least biannual updates from these entities on progress made thus far regarding the implementation of remedial actions; there are also ad hoc interventions or invitations to these entities to brief the PAC on progress made. This has been the practice over the last three completed fiscal years. For instance, in November 2018, the PAC annulled two scheduled meetings because audited entities with adverse audit findings failed to present appropriate remedial action plans or progress made in relation to the PAC (and OFAG audit) recommendations.

Dimension score = B

PI-31.4 Transparency of legislative scrutiny of audit reports

237. The PAC identified 10 central government institutions, which it identified as stakeholders that should attend all public hearings. These are the General Attorney, FEAC, Public Procurement and Property Disposal Agency, MoF, Plan Commission, Revenue Authority, Customs, MoE, Ministry of Higher Education, and Auditor General. Representatives of the audited entity also attend the hearing. The Parliament also invites the media, including state broadcasting agency and affiliated media houses

[29] PAC members; minutes held at Parliament.
[30] Minutes of the Parliament on audit hearing are available in the Library of Parliament (signed by the House of Speaker and other members). The minutes clearly show the decision made in each hearing.

such as Ethiopian Broadcasting Corporation, Fana Broadcasting Corporation, and Walta. The hearing date is announced through public notices and anyone who is interested can attend the hearing. Private media houses also attend the hearings. Private and public media broadcast the hearing and decisions on their networks. The hearing is recorded and broadcasted by national television. That said, sensitive and high-level securities issues are held in camera. At the end of its hearings, the PAC reports are tabled in the full chamber for debate and consideration, after which recommendations are issued to the executive for remedial action. Brief summaries of the hearings are also posted on the Facebook account of the HoPR. The full committee report, though not published on the website, is obtainable at the Parliament's library.

Dimension score = B

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment of PFM performance

Budget reliability

238. At the aggregate level, the federal government budget is credible. This is as a result of the tight macro-fiscal framework approved by the Council of Ministers which sets the tone for expenditure management. However, there are serious issues referencing administrative and economic allocation of expenditures, as virements across sectors make the budget approved by Parliament less credible, leading to poor service delivery. The revenue budget, especially at the composition level is poor, even though the aggregate appears to be reasonable. Some socioeconomic factors accounted for this poor performance in budget reallocations; 8.5 million Ethiopians were affected by drought as well as political unrest, which led to change in political leadership, necessitating some major budget reallocations and a significant drop in government revenues due to the latter factor.

Transparency of public finances

239. Budget formulation, execution, and reporting are based on administrative, economic, and functional classification using GFS/COFOG standards or a classification that can produce consistent information with those standards. Budget documentation fulfils at least three basic elements. Expenditure outside Government Reports is less than 5 percent of total BCG expenditure. Revenue outside Government Reports is less than 10 percent of total BCG revenue. Detailed financial reports of most EBUs are submitted to government annually within six months of the end of the fiscal year. The system for allocating horizontal transfers to regional governments is rule based and transparent. Regional governments receive reliable information on transfers more than two months before the beginning of the new fiscal year; this allows for sufficient time to prepare their annual budgets. The federal government does not manage primary service delivery units such as primary schools and health care centers; however, it delegates those responsibilities to regional governments and woredas and transfers earmarked grants for that purpose. Primary service delivery at the lower-level governments (with significant funding from the federal government) is satisfactory. Public access to fiscal information is poor with the government making available to the public two basic elements and one additional element.

Management of assets and liabilities

240. Monitoring of public corporations is weak. Only 0.4 percent of corporations submit their reports within six months after the end of the financial year. Regional governments submit annual financial statements to the federal government; these reports are not published. There are significant delays of more than one year in publishing audited reports of regional governments. The federal

government does not prepare and publish a fiscal risk report. There is no independent economic analysis of all major capital investment projects. Project costing is weak; only total capital investment cost is provided. There is no forward-linked recurrent expenditure framework in relation to capital investment projects. The M&E Directorate of the PDC does not effectively monitor and evaluate government investment projects. That said, the federal government, with assistance from development partners, is preparing manuals and revising regulations on public investment. The federal government maintains records of its cash and bank balances; there are no records of other financial assets such as government equity shares in both public and private enterprises. The federal government does not maintain a consolidated register of its fixed assets; however, individual budget units do keep asset registers. The Debt Management Directorate of the MoF uses version 6 of DMFAS to record and manage public debt (both domestic and foreign) and guarantees. Debt reports are generated at least quarterly. A current MTDS covering 2016–2020 has been prepared and published.

Policy-based fiscal strategy and budgeting

241. Policy-based fiscal strategy and budgeting work well as far as the MEFF, budget preparation, and legislative scrutiny of the budget are concerned. The Fiscal Policy Directorate prepares forecasts of key macroeconomic indicators, which, with the underlying assumptions, are included in the budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years; the projections have been reviewed by the Council of Ministers, an entity other than the preparing entity. The Fiscal Policy Directorate also prepares the MTFF forecasts of the main fiscal indicators, including revenue by type, aggregate expenditure, and the budget balance for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and the explanations of the main differences from the forecast made in the previous year's budget, are included in the budget documentation submitted to Parliament. A fiscal strategy has not been prepared. Though the government prepares a five-year MTEF which is updated annually, the budget is not prepared on a medium-term basis. Besides the strategy of the MoE, no sector strategies were provided to the assessment team, so the team could not assess alignment of strategic plans and budgets. On the other hand, budget documents provide an explanation of 77 percent (that is, most) of the changes to expenditure estimates between the second year of the last medium-term budget and the current year budget at the ministry level so that consistency of budgets with previous year estimates is good.

242. A clear annual budget calendar exists and is generally adhered to and allows budgetary units six weeks from receipt of the circular to meaningfully complete their estimates on time. All public bodies answered the BCC on time for the preparation of the EFY 2011 (FY2018/2019) budget. A comprehensive budget circular is issued to budgetary units, which covers total budgetary expenditure for the full fiscal year. It reflects ministry ceilings submitted to the Council of Ministers. That said, the Council approves the ceilings after the distribution of the BCC to budgetary units. The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in all three completed fiscal years under review. The legislature's review covers fiscal policies and aggregates for the coming year, as well as the details of expenditure and revenue. The MTEF is sent to the RBFSC by the MoF but is not examined. The legislature's procedures include arrangements for public consultations, internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures. The legislature has approved the annual budget before the start of the fiscal year in each of the last three years. Clear rules exist for in-year budget amendments by the executive and are adhered to, but they allow for extensive administrative allocations.

Predictability and control in budget execution

243. Both revenue management and accounting for revenues are reasonable. Public access to taxpayer information is reasonable. There are also redress mechanisms for taxpayers, both administratively and at the legal courts. Risk management strategy exists for both domestic and customs departments. The assessment team was unable to rate PI-19.4 due to lack of information on customs arrears, which represent about 46 percent of total tax revenues. The MoF received monthly revenue reports from the MoR, representing up to 81 percent of total government domestic revenue. Revenue collections are transferred within three days to the Treasury. Presently, there is no complete reconciliation (assessment, collections, transfers, and arrears) within the tax revenue framework. Although the Treasury consolidates its cash and bank balances on a daily basis, this does not include cash and bank balances of public bodies; these are consolidated on a monthly basis. Most budget units receive quarterly expenditure commitment ceilings. Budget reallocations across votes are less frequent, even though sectorwide reallocations are rampant (see dimensions PI-2.1 and PI-2.2). Expenditure arrears are monitored at least every year; available information as reported in the annual financial statements indicates that stock of arrears is below 2 percent of total federal government expenditure. Payroll is decentralized and managed at each central government entity level. While retroactive changes occur, they are insignificant. The public procurement framework is not weak; important procurement information (procurement plans, contract awards, complaints resolution, and so on) is not made public. Generally, internal controls are reasonable; however, concerns have been raised in the area of compliance with rules and regulations. Internal audit coverage is wide, across most budget units; however, adherence to internal standards needs improvement. Majority of planned internal audits are carried out.

Accounting and reporting

244. Federal Treasury performs bank reconciliations within four weeks after the end of the previous month and likewise for most budgetary units. While government maintains no suspense accounts, advances are huge and reconciled annually but with significant uncleared balances. One concern with regard to financial data integrity relates to IBEX (two-thirds of budget units are on the system), where the system fails to prompt users to change their passwords periodically. There are also compatibility and accuracy issues during data transfer from IFMIS to IBEX for consolidation of financial reports. It is, however, understood that the government is migrating to IFMIS, with about a third coverage; this is expected to improve data security, accuracy, and integrity. Both systems generate audit trail. While most budget units submit monthly reports to the MoF, these reports are not consolidated by the MoF for management use. Annual financial statements are submitted to OFAG within six months after the end of the financial year. The statements are prepared using modified cash basis of accounting and consistent overtime and in line with the government legal framework. The statements are comparable with approved budgets and contain information on revenue, expenditure, liabilities, and financial assets.

External scrutiny and audit

245. OFAG audits are in line with ISSAI standards; audit coverage is wide, for more than 75 percent of total government expenditure and revenues. The legislature receives audit reports within six months (or three months after receipt from the MoF) after the end of the financial year. Both the independence of OFAG and audit follow-ups are reasonable, but there are areas of concern. Legislative review and scrutiny of audit reports are good but are not effective in enforcement of recommendations proffered thereof.

4.2 Effectiveness of the internal control framework

246. Three fundamental objectives are foreseen when internal control framework is functioning well: ensuring the effectiveness and efficiency of government operations; ensuring accurate and reliable internal and external financial and nonfinancial reporting to stakeholders; and ensuring compliance with laws and regulations, including accounting standards.

247. **Control environment.** There is an overall positive intention at the top to integrity and good governance. The national five-year GTP considers anti-corruption and enhancement of good governance as a key strategic objective of the Government of Ethiopia.[31] According to Transparency International's Corruption Perception Index of 2018, Ethiopia was ranked 114 from 180 countries, with an average of score of 34 out of 100. The limitations in public investment management (PI-11) and public asset management (PI-12) in terms of budget overruns in public investments and poor asset management increase the opportunity for corruption. OFAG conducted performance audits on some of large-scale projects (for example, sugar projects) and auditing findings were presented and followed by the PAC.

248. Organizational structures are clear, policies and procedures are available, and oversight institutions are functioning (PI-25), though some of the PFM functions are affected by employee turnover. Internal audit units and OFAG are generally independent in discharging their responsibilities. The audit findings of internal audit units and OFAG are generally implemented by the management. Parliament is exercising its oversight responsibilities, though with some delays. The FEAC is also contributing to detection and prevention of corruption in various aspects of public service.

249. **Risk assessment.** The organizational-level risk assessment is instrumental in proactively dealing with the impacts of the reform, changes in working methods, contexts, and volume of operation and updating existing control activities. There is no uniform practice between BIs on risk assessment. ERA has developed a risk mitigation strategy based on review of risks available to the authority. The Internal Audit Unit of ERA did not prepare the annual risk rating exercise by taking into account the organization's risk strategy. The MoH, MoE, and MoA did not conduct organizational-level risk assessment. The Internal Audit Unit of the MoH conducts a risk rating exercise as part of the annual audit plan preparation process. The Internal Audit Unit of the MoE conducted risk assessment based on a working paper on risk-based internal audit issued on June 5, 2014. The Internal Audit Unit of the MoA does not conduct risk assessment. The AFROSAI-E peer review of OFAG indicated that there is a tendency of over-auditing as determination of sample size may not be based on risk assessment. Similarly, the time spent on routine 100 percent vouching of financial audits by internal auditors could have instead been used for more systemic audits had audit plans and activities been conducted based on comprehensive risk assessments.

250. The ERCA has a risk management policy and strategy. The Risk Assessment Directorate of the ERCA conducts risk assessment and develops a risk profile for taxpayers, which will be a basis for selection of files for audit. The risk assessment process is decentralized. Manuals and guidelines are available to help risk assessors (PI-19.2).

251. **Control activities.** Various control activities are in place in most of the PFM areas including accounting, cash management, revenue collection, disbursement, budgetary process, budget execution, certain asset management, procurement, auditing, payroll, and human resource management. The control activities are deployed through procedural proclamation, regulation, manuals, and directives. The control activities in the area of public investment management (PI-11)

[31] GTP 2, Section 7.1. (Amharic version).

and certain financial asset management (PI-12), including investments in SOEs, are yet to be developed.

252. The segregation of duties (PI-25), requirements for monthly reconciliation of bank accounts, advances, and suspense are part of the control activities. Both IFMIS and IBEX are password protected. However, the level of password control needs improvement, especially with IBEX (PI-27).

253. PFM reforms are ongoing, spearheaded by the EMCP at the MoF. The Public Finance Administration Proclamation and the Reestablishment Proclamation of OFAG was revised in 2016. Though at a slow pace, IFMIS rollout is ongoing. The absence of organizational-level risk assessment and the significant focus on financial and compliance audit limited the available time to assess the effectiveness and efficiency of existing control activities. The recurring nature of irregularities in procurement, receivables management, and noncompliance with certain payment procedures (PI-26, PI-25, PI-30) show the limitation in the effectiveness of control activities.

254. **Information and communication.** BIs prepare performance reports and submit to management. Most of the BIs prepare plans and performance reports based on Balanced Scorecard (BSC).[32] Monthly financial reports are prepared and submitted to the MoF. The financial report covers standard trial balances, ledgers, bank statements, and reconciliations. However, in-year comprehensive financial management reports may not be produced by most of the BIs. As most of the management members are not demanding for these reports for managerial decision making, there is little incentive to compile and submit such reports (PI-28). Though the annual budget includes subsidies to regional governments, national-level consolidated financial statements which include the federal and regional government are not prepared on time. There is a legal framework which requires the distribution and use of national-level consolidated financial statements. BIs separately report donor-funded projects and EBUs to the financiers or donors. However, BIs do not prepare a consolidated financial report which includes expenditures of donor-funded projects received through Channel 1 and Channel 2[33]. Almost all the BIs submit their financial statement for audit on time. The MoF submits its draft financial reports within six months from the end of the fiscal year. The final version of the report is submitted later after four months though this is not preventing OFAG from commencing the audit activity.

255. Internal audit units report their findings quarterly to the head of the BI and also to the Inspection Directorate. The Inspection Directorate summarizes key findings and submits to the Minister of Finance so that the findings will be reported to the HoPR as part of regular reports of the minister. OFAG communicates its audit findings to the AG and the FEAC on the legal actions to be taken; however, this appears to not be working well.

256. Though most of the BIs have their own websites, the content of the sites and their visibility (due to frequent downtimes) to the public need improvement (PI-9). Information on progress made against government fiscal strategy and explanation for any deviation are not available to the legislature (PI-15).

257. The implementation of IFMIS enhances information flow and communication. Drawing limits in zero-balance accounts are set online by the Treasury using IFMIS. Both the bank and the BIs are informed at the same time when Treasury enters the information into IFMIS. Written hard copy is used to communicate to both the bank and the BIs where IFMIS is not rolled out. IFMIS has more robust financial management reports than IBEX. It is expected that the full rollout of IFMIS will

[32] The Balanced Scorecard is a strategy performance management tool—a semistandard structured report that can be used by managers to track the execution of activities by the staff within their control and to monitor the consequences arising from these actions. The tool is applied in most government institutions.

[33] Channel 1 fund flow mechanism is where by resources are channeled to MoF and similar offices at regional and woreda levels. Channel 2 fund flow mechanism is whereby resources are channeled directly to the sectors.

enhance the use and communication of financial information. The implementation of IPSAS is also expected to enhance the quality of financial reports and a lot of disclosures.

258. **Monitoring activities.** Oversight bodies, including Parliament, heads of BIs, and the Inspection Directorate, monitor the implementation of findings and recommendations. In their subsequent audits, the internal audit units and OFAG monitor whether findings and recommendations are implemented by audited entities.

259. There is no independent body with the right capability to conduct prudent investment project monitoring to ensuring value for money and judiciary integrity from the point of approval and throughout the implementation. The new department established within the PDC is expected to conduct monitoring activities on public investments (PI-11). OFAG and some of the internal audit units conduct performance audits which enables them to assess the performance of certain projects and functions.

260. OFAG has been assessed for quality assurances by INTOSAI and AFROSAI-E to determine the extent of its compliance in the application of ISSAI. OFAG also has an internal quality assurance unit which periodically monitors the audit works regarding the application of ISSAI and best practices in auditing. Similar peer reviews were not conducted between OFAG and ORAGs. The Inspection Directorate conducts assessment on the quality of the audit report which may not be comprehensive. Internal audit units are notified regarding any audit findings and recommendations that are not substantiated by the supporting document provided or facts explained in the report. Such reviews, however, may not be either conducted or communicated on timely.[34] Parliament also scrutinized audit findings and recommendations and monitors the implementation of these findings.

261. Within the financial management system, there are monitoring procedures which include bank reconciliations, advance and suspense review, and stock and fixed asset physical counts. Suspense accounts are reconciled monthly but with some unacquitted balances. All bank accounts of the central government may not be reconciled monthly (PI-27). Most of the advance accounts are not reconciled monthly or quarterly. Advances are reconciled at year-end (PI-27) but with some outstanding balances (PI-30, PI-25, PI-26).

4.3 PFM strengths and weaknesses

Impact of PFM systems on the three main budgetary outcomes

Fiscal discipline

262. At the aggregate level, the federal government budget is credible. This is as a result of the tight macro-fiscal framework approved by the Council of Ministers which sets the tone for expenditure management. Revenue execution, especially at the composition level is poor, even though the aggregate appears to be satisfactory. The stock of expenditure arrears is low over the last three fiscal years at less than 1 percent of total expenditure. Segregation of duties was found to be satisfactory and likewise for payroll management and controls. Nonetheless, fiscal discipline has been negatively affected by flouting of some laws and regulations, particularly with regard to procurement and asset management. There is also a negative impact on fiscal discipline due to weak management of public enterprises, especially monitoring and evaluating fiscal risks posed by these enterprises and the timeliness of reporting. Internal audit units within BIs, with the supervision of the MoF Inspection Directorate, have provided reasonable assurance to expenditure commitment and payment despite some weaknesses in terms of full compliance. Management responses to internal control weaknesses have not improved but efforts are being made to strengthen existing control mechanisms.

[34] Internal Audit Unit - Bureau of Education, Inspection Directorate.

Reconciliations of bank accounts and other subsidiary accounts have been mixed; while most budgetary units reconcile their bank accounts on time, the Treasury Main Accounts are significantly delayed. Again, advances are not reconciled on time and there are huge outstanding balances. OFAG has been proactive in identifying and reporting control weaknesses; however, the repetitive nature of financial management infractions attests to the need for stronger executive action. The legislature appears to be strong and active but little impact is seen on the general control environment.

Strategic allocation of resources

263. The framework for allocating resources to regional governments is transparent and rule based but cumbersome. There are also some links between national medium-term priorities and sector strategies, further cascaded into annual action plans and budgets; however, resource allocation has been negatively affected by the frequent and continuous in-year budget reallocations, indicating a poor planning and budget formulation regime. Furthermore, there are serious issues referencing administrative and economic allocation of expenditures, as virements across sectors make the budget meaningless, leading to poor strategic allocation of resources. While aggregate expenditure outturns were 105.7 percent, 101 percent, and 98.9 percent for FY2015/2016, 2016/2017, and 2017/2018 respectively, functional variances were 25.9 percent, 25.1 percent, and 23.3 percent in 2015/2016, 2016/2017, and 2017/2018, respectively (with economic variances at 10.2 percent in 2015/2016, 16.7 percent in 2016/2017, and 5.7 percent in 2017/2018).Concerns have been raised referencing the non-equity allocation of non-general-purpose grant (earmarked grants) by both the HF and regional governments. Strategic resource allocation is also negatively affected by the weaknesses in tracking off-budget funds. The regulatory framework also leaves room for extensive administrative reallocations, which is seen as a weakness. The impact of this is that service delivery, especially at the primary levels, is seriously affected. Also, misallocation of resources in most cases has led to noncompletion of planned projects and activities. Public investment planning does not include rigorous comparison of costs and benefits of proposed projects or independent feasibility studies (except for donor-funded projects), for lack of adequate skilled personnel. Most projects are selected based on political considerations, with negative impact on strategic resource allocations. Political projects take precedence over planned initiatives.

Efficient use of resources for service delivery

264. The federal government does not manage primary service delivery units such as primary schools and health care centers. These are managed at the regional/woreda level with significant funding (earmarked grants) from the federal government. Delays in actual transfers to regional governments have a negative impact on primary service delivery. It should be noted that tertiary institutions and referral hospitals managed by the federal government are also affected by resource allocation challenges as well as delays in cash transfers, even though the expenditure commitment horizon is three months.

4.4 Performance changes since previous assessment

265. The last PEFA assessment was conducted in 2015, using the 2011 methodology. In accordance with the PEFA Secretariat's Guidance Note on measurement of performance change, the 2011 framework was used to assess the situation at the time of assessment in 2018. Annex 4 provides a detailed analysis of changes since 2015.

Fiscal discipline

266. Aggregate fiscal discipline is satisfactory though it declined in 2018 compared to the 2015 performance. Budget reliability, especially expenditure outturn, has dropped from 'A' in 2015 to 'B' in

2018; in 2015/2016 and 2016/2017, the variance in expenditure outturn exceeded 5 percent. Revenue performance declined (PI-3 from 'B' in 2015 to 'C' in 2018), with an outturn of a little over 7 percent in two of the last three completed years mainly due to low domestic revenue collections. The same can be said of expenditure composition outturn (PI-2 from 'B' in 2015 to 'D+' in 2018); that said, expenditure from contingency reserves has been low (below 1 percent of total budget), which is good. Performance of stock of expenditure appears to have declined; this is not the case in reality as 2015 appears to have been overrated on dimension (ii) which relates to the frequency of reporting. Payroll controls have remained unchanged, except for the improvement in dimension (i) in terms of better links between personnel and payroll records through IFMIS. Controls on non-salary expenditure have generally remained unchanged with the efforts of internal audit units within BIs and supervision from the MoF Inspection Directorate; nonetheless, noncompliance with procurement rules and regulations has continued to exist, as reported by the Federal AG.

Strategic allocation of resources

267. Resources are allocated on the basis of the national medium-term development strategy - GTP II, following from the development of sector strategies with some links to GTP II. The macro-fiscal framework which provides broad sector allocations is weakened by the reallocation of sector resources after the annual budget approvals. The main weakness observed is on expenditure composition outturn (PI-2 from 'B' in 2015 to 'D+' in 2018), affecting the strategic allocation of resources to sectors in contrast with the original government policy. The timeliness and reliability of information on transfers to regional governments (PI-7) has improved from 'B+' in 2015 to 'A' in 2018; nonetheless, there are significant delays in the release of actual cash to regional governments, thereby affecting primary service delivery. Most information on resource allocations to sectors plus actual performance reports are not published. This does not allow citizens to effectively track resource allocations.

Efficient service delivery

268. Primary service delivery in Ethiopia is mainly the responsibility of city and regional governments. That said, poor planning and inefficient resource allocation could hamper service delivery at the primary level because regional governments rely on federal subsidies to deliver the required service. Performance has largely remained unchanged as delays in the release of actual cash to regional governments still exist. This situation has also affected federal service delivery at the tertiary level such as referral hospitals and universities. Service delivery has been affected by the reallocation of sector budgets (PI-2) and the frequency of in-year budget adjustments. Weaknesses in public procurement remain unchanged; there are no reliable data to assess the extent to which a non-competitive procurement method is justified.

5. Government reform process

269. In July 2018, the government developed its first 'comprehensive' Medium-term PFM Reform Strategy spanning 2018–2022. Before this strategy, a number of piecemeal PFM reforms have been undertaken with mixed results; key challenges identified before the new reform strategy included unclear financial management laws and regulations as well as ambiguous financial management processes. These challenges, among others, culminated in the development of the new PFM Reform Strategy.

5.1 Approach to PFM reforms

270. The current PFM Reform Strategy 2018–2022 is anchored on pillar 2.6 - fiscal policy of GTP II. The reform strategy has nine goals:

(a) Balancing government revenues and expenditures over the medium term

(b) Making cost-effective budget allocations

(c) Making government debt management and payment systems modern, efficient, and cost-effective

(d) Timely and accurate government accounting and reporting

(e) Strengthen value for money by improving the internal audit and control system

(f) Modern government procurement and public asset management system

(g) Modern IT systems that support government financial administration

(h) Government financial administration that is participatory, transparent, and accountable

(i) Greater capacity in government financial administration

271. The entire PFM reform strategy is estimated to cost ETB 5.34 billion, though this is questionable as there is no breakdown of activities and related cost elements. Funding sources will include the government's own resources plus development partner support. Stakeholders, especially development partners, have welcomed the government's PFM reform strategy; however, questions have been raised regarding the exclusion of support to external oversight functions (OFAG and Parliament) as well as to revenue administration. The reform strategy also lacks a clear prioritization and sequencing approach, in addition to a succinct M&E framework.

5.2 Recent and ongoing reform actions

272. The World Bank is currently funding the Ethiopia Public Financial Management Project at a cost of US$33 million over a four-year period ending in June 2020. Table 5.1 summarizes the main project components.

Table 5.1: Ethiopia PFM project components

Components	Cost (US$ millions)
Component 1: Improving Expenditure Management and Information Systems	22.45
Component 2: Strengthening Accountability Institutions	9.41
Component 3: Project Management, Monitoring and Evaluation	1.14
Total cost	**33.00**

273. The main objectives of each component, according to the Program Action Document are as follows:

- **Component 1: Improving Expenditure Management and Information Systems:** The objective of this component is to support the government in implementing the next generation of PFM reforms through the government-funded IFMIS rollout plan. It will support the rollout of IFMIS and enhancement of IBEX, provide extensive support to the Project Management Office (PMO), accompany the PFM reforms (coming with the IFMIS rollout), and fund the establishment of a permanent IFMIS and PFM Academy.
- **Component 2: Strengthening Accountability Institutions:** This component will support accountability institutions in the performance of their functions. These include strengthening procurement and property management, capacity building of oversight functions including OFAG - Federal AG and Regional AGs, development of the accountancy profession, and support for Federal and Regional Ethics and Anti-Corruption Commissions to strengthening anti-fraud and anti-corruption activities.

- **Component 3: Project Management, Monitoring and Evaluation:** This is aimed at supporting program management and coordination through project implementation, effective monitoring and evaluation of results, and a consistent and effective approach to capacity development initiatives.

274. Major achievements in terms of the ongoing PFM reforms include the following:

- Under Component 1, the IFMIS rollout contract has been awarded and implementation is progressing steadily but with some challenges such as weak and insufficient technical capacity to provide technical support to IFMIS rollout and weak Internet connectivity. As of June 2018, IFMIS has been rolled out to 67 sites, with 47 successfully tested, and 25 out of the 47 handed over to the IFMIS PMO. In all, 149 sites have been envisaged for IFMIS rollout; this means that 102 sites (149 less 47) are planned for completion by December 2019. There are plans to roll out the IBEX payroll module to all woredas by December 2019. Since June 2018, around 35 more branch sites have been added under IBEX (online version) with an overall coverage of a little over 98 percent. The training and capacity building of IBEX are also progressing, with more than 150 staff trained since June 2015.
- Under Component 2, some progress has been made on e-Government Procurement (e-GP). These include the establishment of a technical committee on e-GP and the recruitment of a consultant for system upgrade based on recommendations from the technical committee. Also, 621 public servants have been trained on public procurement, including trainer-of-trainers, out of which 36 percent are female. Not much has been achieved with OFAG, except for negotiations on the TOR for the recruitment of technical assistance to support and improve OFAG's operations. Also, the development of the Accounting and Auditing Board of Ethiopia (AABE) is still in the early stages; there are vacant positions for board members, which retards the smooth implementation and approval of AABE's decisions. While there has been support to the Federal and Regional Ethics and Anti-Corruption Commissions, there is little information in terms of progress achieved, to effectively report on progress made thus far.
- Under Component 3, project management is still weak mainly due to inadequate staff to effectively provide monitoring and evaluation of the entire PFM reform program. It has therefore been recommended that additional short-term experts be recruited to fill the gap.

275. In addition to the major PFM reform project funded by the World Bank and support to 'Enhancing Shared Prosperity through Equitable Services' at a cost of US$100 million, other development partners are supporting parallel projects and/or planning to support the following reform programmes:

- **DFID**'s TTP at a cost of GBP 35 million over a 4-year period starting 2019. Before this program, DFID also funded the Tax, Audit and Transparency Program which supported OFAG, the FEAC, and ERCA. DFID is also co-funding the 2018 PEFA assessments (federal and regional governments).
- **The EU** is co-funding the 2018 PEFA assessments. Until now, the EU's PFM capacity development support was provided at a subnational level through its contribution to the Promoting Basic Services Multidonor Program. In addition, the EU is increasingly using budget support for which the improvement of PFM systems is a precondition and also includes PFM disbursement-linked indicators. The EU budget support portfolio includes the following:
    - Budget Support Transport: EUR 138,000,000 + EUR 100,000,000 additional financing
    - Budget Support Health: EUR 115,000,000 + EUR 50,000,000 additional financing
    - Budget Support Jobs Compact: EUR 50,000,000

  - Budget Support in Climate Change: EUR 36,000,000
  - Finally, two PFM capacity development operations are in the pipeline:
    - EUR 2,270,000 grant to the MoF
    - EUR 10,000,000 to be formulated in 2019, expected to be operational in 2020, and covering revenue and expenditures.

- **Irish Aid** is also co-funding the 2018 PEFA assessments. Irish Aid works with the Government of Ethiopia in different sectors and currently is designing its next country strategy paper.
- **UN Women** has been supporting the government on GRB since 2012 starting with development of the National Gender Responsive Budgeting Guideline. It has provided training and capacity building in most federal government line ministries and their respective regional bureaus mostly in the developed regions; it has also supported the development of manuals and guidelines on GRB for different target audiences including parliamentarians. In September 2018, UN Women funded and technically guided the development of the 'Gender Gap Analysis of the PFM System in Ethiopia'. It is also co-funding the 2018 PEFA assessments.
- **UNICEF** is co-funding the 2018 PEFA assessments. While it has no major PFM project, UNICEF provides technical support and capacity building to the MoF on PFM studies such as policy briefs on MoF gap analysis. UNICEF also has interest in the 'Children Driven Budgeting' program; it is therefore working with the Ministry of Women and Children on this initiative.
- **IMF** is providing technical support for the Macro-fiscal Directorate of the MoF to improve macro-fiscal forecasting.

276. The Federal Government of Ethiopia, with support from some development partners such as the World Bank, IMF, and DFID, is also undertaking reforms in the area of fiscal risk reporting to better monitor and evaluate risks posed by public enterprises as well as contingent liabilities arising out of PPPs. Further, the PDC is being supported to develop a PIM framework (proclamation, guidelines, and manuals) and capacity building.

Donor coordination

277. Donor coordination is less efficient in Ethiopia; this is evidenced by the absence of a donor tracker for monitoring donor support to PFM activities in Ethiopia, a prerequisite to reducing or, better still, avoiding duplication of efforts. The latest formal PFM Sector Working Group meeting was held in September 2018 after more than a year; however, bilateral and ad hoc meetings take place. The donor working group on PFM tries to meet regularly to update on new developments so as to avoid duplicate efforts. The working group on revenue side doesn't meet as frequently and needs further strengthening.

5.3 Institutional considerations

Government leadership and ownership

278. Ethiopia has been implementing a series of ambitious PFM reforms in the past two decades and has currently developed a 'comprehensive' PFM Reform Strategy for 2018–2022 although the current strategy does not include oversight functions or revenue administration. Strong federal and regional government commitment coupled with strong donor support resulted in notable achievements in improving the legal framework, revenue performance, budget preparation and management, cash management, debt management, accounting and reporting, procurement and asset management, internal audit, external audit, financial information systems, and transparency and accountability in PFM. The overall strategic direction of reform is overseen by a National Steering

Committee chaired by the State Minister of the MoF and implemented by the Expenditure Management and Control Reform Directorate under the MoF, headed by a director. In recent years, some key government officials have been arrested on corruption charges; this disrupted the reform program schedule. Other reforms such as the external audit and tax reforms are managed by OFAG and the ERCA; there is, however, a weak link between these reforms and the main PFM reform. GTP II has given emphasis to tax reform program and thereby increasing revenue. The current strategy includes a detailed action plan for a five-year period and based on this, the annual action plan is prepared with a monitoring framework.

Coordination across government

279. The Expenditure Management and Control Reform Directorate under the MoF is responsible for implementation and coordination of the PFM reform programs at the federal and regional levels. Regional Steering Committees implement the reform at the regional and woreda levels. The progress of the reform is reviewed at the biannual meetings of the Federal and Regional Steering Committees and the quarterly meetings of the PFM Sector Working Group which is composed of government and donors. Moreover, the progress is also reviewed at the biannual JRIS mission conducted by the federal and regional governments and donors. The new strategy requires the formation of a leadership team and various technical committees from federal and regional institutions. However, these committees are yet to be formed. External audit reform and tax reforms are managed by the respective institutions, that is, OFAG and the ERCA. However, it is not clear how overall coordination among these institutions is achieved.

A sustainable reform process

280. The reforms have been financed through government budget, and donor support was also significant. A series of trainings have been provided but high staff turnover continues to undermine progress. To overcome this, the government has started to provide institutional training. The current strategy is estimated at ETB 5.34 billion over the next five years. It is expected that majority of funding will be sourced from development partners; the government has also indicated its willingness to mainstream the reform activities within the annual budget process to ensure sustainability.

Transparency of the PFM program

281. The current PFM Reform Strategy for 2018–2022 includes a detailed action plan for the five-year period and the budget requirements. It is published on the MoF website (www.mofed.gov.et); however, there is no evidence of engagement with civil society organizations. Annual budget is allocated for the Expenditure Management and Control Reform Directorate as part of the budget for the MoF to support the implementation of the reform strategy.

ANNEXES

Annex 1: Performance indicator summary

No.	Indicator	2018 Score	Justification for 2018 Score
Pillar I: Budget reliability			
PI-1	**Aggregate expenditure outturn**	A	Aggregate expenditure outturn was between 95% and 105% in at least two of the last three years (105.7% in 2015/2016, 101% in 2016/2017, and 98.9% in 2017/2018).
PI-2	**Expenditure composition outturn**	**D+**	
2.1	Expenditure composition by function	D	Expenditure composition variance by function for all of the last three was more than 15% (25.9% in 2015/2016, 25.1% in 2016/2017, and 23.3% in 2017/2018).
2.2	Expenditure composition by economic type	C	Expenditure composition variance by economic type for all of the last three was less than 15% in two of the last three years (12.2% in 2015/2016, 18.6% in 2016/2017 and 7.2% in 2017/2018).
2.3	Expenditure from contingency reserves	A	Average expenditure charged to contingency reserves for the last three years averaged 0.04% of the total expenditure.
PI-3	**Revenue outturn**	**D+**	
3.1	Aggregate revenue outturn	C	Actual total revenue outturn for at least two of the last three years falls in the range of 92% to 116% (102.9% in 2015/2016, 93.7% in 2016/2017, and 93.8 in 2017/2018).
3.2	Revenue composition outturn	D	Revenue composition variance for all the three years was more than 15% (21.1% in 2015/2016, 23.2% in 2016/2017, and 21.4% in 2017/2018).
Pillar II. Transparency of public finances			
PI-4	**Budget classification**	B	Budget formulation, execution, and reporting are based on administrative, economic, and functional classification using GFS/COFOG standards or a classification that can produce information that is consistent with those standards.
PI-5	**Budget documentation**	**C**	Budget Document fulfils at least three basic elements.
PI-6	**Central government operations outside financial reports**	**B**	
6.1	Expenditure outside financial reports	B	Expenditure outside Government Reports is less than 5% of total BCG expenditure.
6.2	Revenue outside financial reports	C	Revenue outside Government Reports is less than 10% of total BCG revenue.
6.3	Financial reports of extrabudgetary units	B	Detailed financial reports of most EBUs are submitted to the government annually within six months of the end of the fiscal year.
PI-7	**Transfers to subnational government**	**A**	
7.1	System for allocating transfers	A	The system for allocating horizontal transfers to regional governments is rule based and transparent. However, regional priorities may differ from federal government priorities, leading to poor resource allocation and inefficient service delivery.
7.2	Timeliness of information on the transfers	A	Regional governments receive reliable information on transfers more than two months before the beginning of the new fiscal year; this allows for sufficient time to

No.	Indicator	2018 Score	Justification for 2018 Score
			prepare their annual budgets. The federal government budget timetable provides indicative ceilings by February.
PI-8	**Performance information for service delivery**	**B+**	
PI-8.1	Performance information for service delivery	A	Each year, the federal government publishes information on its policy objectives, performance indicators, outputs, and outcomes to be achieved in the next fiscal year. This information is disaggregated by program.
PI-8.2	Performance achieved for service delivery	D	The MoF consolidates program budget results into a report; this was the case in FY2017/2018. The report contains information on outputs and outcomes from all sectors, again disaggregated by program. However, this is not published. While the education sector (14% by value of federal government budget) publishes annual statistical abstract, the health sector does not.
PI-8.3	Resources received by service delivery units	A	Information on resources to the regional and woreda levels, where the service delivery units operate, is collected and recorded by the MoH and the MoE, disaggregated by source of funds. A report compiling the information is prepared at least annually.
PI-8.4	Performance evaluation for service delivery	A	The MoF conducts an annual evaluation of all sectors to assess the efficiency and effectiveness of government policy; the report is however not published. That said, there is also an annual joint evaluation (known as the JRIS) of the pro-poor sectors (education, health, water and sanitation, and agriculture—all together covering 100% of pro-poor and service delivery expenditure). The JRIS reports are published. The World Bank also published two PERs conducted in 2016 and 2017.
PI-9	**Public access to fiscal information**	**D**	The government makes available to the public two basic elements and one additional element.
Pillar III. Management of assets and liabilities			
PI-10	**Fiscal risk reporting**	**D**	
10.1	Monitoring of public corporations	D	Monitoring of public corporations is weak; 99.6% (by value) of public corporations submit their annual financial statements to both the government and OFAG between two to five years after the end of the financial year. Only 0.4% (by value) submit their reports within six months after the end of the financial year.
10.2	Monitoring of subnational governments	D	Regional governments submit annual financial statements to government; these reports are not published. There are significant delays of more than one year in publishing audited reports of regional governments.
10.3	Contingent liabilities and other fiscal risks	D	The federal government does not prepare or publish a fiscal risk report. Also, it does not prepare and monitor both explicit and implicit contingent liabilities.
PI-11	**Public investment management**	**D+**	
11.1	Economic analysis of investment proposals	D	There is no independent economic analysis of all major capital investment projects. However, a few projects initiated by budget units undergo simple economic analysis.

No.	Indicator	2018 Score	Justification for 2018 Score
11.2	Investment project selection	C	Most capital investment projects are selected based on government priorities; selection is done at the level of the Council of Ministers.
11.3	Investment project costing	D	Project costing is weak; only total capital investment cost if provided. There is no forward-linked recurrent expenditure framework.
11.4	Investment project monitoring	C	At present, implementing budget units monitor projects through physical inspection and quarterly and annual financial progress reports. The M&E Directorate of the PDC does not effectively monitor and evaluate government investment projects.
PI-12	**Public asset management**	**D+**	
12.1	Financial asset monitoring	C	The federal government maintains records of its cash and bank balances; there are no records of other financial assets such as government equity shares in both public and private enterprises.
12.2	Non-financial asset monitoring	D	The federal government does not maintain a comprehensive and consolidated register of its fixed assets. Presently, management of fixed assets is decentralised at the budget unit level. The asset registers maintained by these budget units do not provide information on the age and usage of assets.
12.3	Transparency of asset disposal	C	Article 67 of the Federal Government Procurement and Property Administration Proclamation No. 649/2009, dated September 9, 2009, and Directive No. 9/2010 outline the legal and regulatory framework for disposal of fixed assets; there are no clear legal provisions for the disposal of financial assets. Proceeds from the sale of fixed assets and financial assets are disclosed in the financial reports; there is no disclosure of the new owner(s).
PI-13	**Debt management**	**A**	
13.1	Recording and reporting of debts and guarantees	B	The Debt Management Directorate of the MoF uses Version 6 of DMFAS to record and manage public debt (both domestic and foreign) and guarantees. Debt reports are generated at least quarterly. At least 75% of debts are reconciled quarterly.
13.2	Approval of debt and guarantees	A	Article 40 (2) of the 2017 Financial Administration Proclamation No. 648/2009[35] mandates the Minister of Finance as the sole government official authorized to contract loans and issue guarantees on behalf of the Government of Ethiopia. The HoPR approves all loans and guarantees.
13.3	Debt management strategy	A	A current MTDS covering 2016–2020 has been prepared and published on the MoF website (mofed.gov.et). The strategy shows government refinancing plan foreign currency and interest rate risks. Government borrowing plan is consistent with the MTDS.
Pillar IV. Policy-based fiscal strategy and budgeting			
PI-14	**Macroeconomic and fiscal forecasting**	**B**	

[35] Ethiopian Calendar = 2017 Gregorian Calendar.

No.	Indicator	2018 Score	Justification for 2018 Score
14.1	Macroeconomic forecasts	B	The government prepares forecasts of key macroeconomic indicators, which, with the underlying assumptions, are included in the budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections are not reviewed by a technical entity other than the preparing entity.
14.2	Fiscal forecasts	A	The Fiscal Policy Directorate prepares, through the MEFF, forecasts of the main fiscal indicators, including revenue by type, aggregate expenditure, and the budget balance for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and the explanations of the main differences from the forecast made in the previous year's budget, are included in the budget documentation submitted to Parliament.
14.3	Macro-fiscal sensitivity analysis	C	The macro-fiscal forecasts prepared by the government include a qualitative assessment of the impact of alternative macroeconomic assumptions.
PI-15	**Fiscal strategy**	**D**	
15.1	Fiscal impact of policy proposals	D	The government does not prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year.
15.2	Fiscal strategy adoption	D	The government does not prepare a current fiscal strategy that includes qualitative objectives for fiscal policy.
15.3	Reporting on fiscal outcomes	NA	The government does not prepare an internal report on the progress made against its fiscal strategy.
PI-16	**Medium-term perspective in expenditure budgeting**	**D+**	
16.1	Medium-term expenditure estimates	D	The annual budget document presents estimates of expenditure by administrative function or program and economic type but for the budget year only.
16.2	Medium-term expenditure ceilings	D	Aggregate and ministry-level expenditure ceilings for the budget are approved by the Council of Ministers after the BCC is issued to budgetary units.
16.3	Alignment of strategic plans and budgets	D*	Only the MoE provided the sector strategy to the assessment team.
16.4	Consistency of budget with previous year's estimates	B	The budget documents provide an explanation of 77% (that is, most) of the changes to expenditure estimates between the second year of the last medium-term budget and the present year of the current budget at the ministry level.
PI-17	**Budget preparation process**	**B**	
17.1	Budget calendar	A	A clear annual budget calendar exists, is generally adhered to, and allows budgetary units six weeks from receipt of the circular to meaningfully complete their estimates on time.
17.2	Guidance on budget preparation	B	A comprehensive budget circular is issued to budgetary units, which covers total budgetary expenditure for the full fiscal year. The budget reflects ministry ceilings submitted to the Council of Ministers. The Council's approval took place after the distribution of the BCC to budgetary units but before budgetary units had completed their submissions.

No.	Indicator	2018 Score	Justification for 2018 Score
17.3	Budget submission to the legislature	C	The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in all three years.
PI-18	**Legislative scrutiny of budgets**	**B+**	
18.1	Scope of budget scrutiny	B	The legislature's review covers fiscal policies and aggregates for the coming year, as well as the details of expenditure and revenue.
18.2	Legislature procedures budget scrutiny	A	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation. The procedures include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.
18.3	Timing of budget approval	A	The legislature has approved the annual budget before the start of the fiscal year in each of the last three years.
18.4	Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget amendments by the executive and are adhered to in ***most*** instances. Extensive administrative allocations are permitted.
Pillar V. Predictability and control in budget execution			
PI-19	**Revenue administration**	**C+**	
19.1	Rights and obligation for revenue measures	B	The ERCA uses multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
19.2	Revenue risk management	C	The ERCA uses partly structured and systematic approach for assessing and prioritizing compliance risks.
19.3	Revenue audit and investigation	A	Aggregate tax audit completed exceeded target by 18.82%.
19.4	Revenue arrears monitoring	D*	Complete information on tax arrears for FY2017/2018 is not available.
PI-20	**Accounting for revenue**	**C+**	
20.1	Information on revenue collections	C	The ERCA, which collects 81% of the federal government's domestic revenue, reports collections to the MoF on a monthly basis. The report classifies the taxes according to type.
20.2	Transfer of revenue collections	B	Domestic tax revenue collections are transferred to the Treasury within 3 days; nontax revenues are deposited within 24 hours.
20.3	Revenue accounts reconciliation	C	The monthly reconciliation does not include assessments and arrears; reconciliation only covers collections and transfers to the Treasury.
PI-21	**Predictability of in-year resource allocation**	**C+**	
21.1	Consolidation of cash balances	C	As shown in Table 3.19, at least 76% of government cash and bank balances are consolidated monthly.
21.2	Cash forecasting and monitoring	B	Each year within the review period, BIs prepare and submit annual cash flow plans to the MoF, which are consolidated. The annual cash flow forecasts are updated quarterly based on actual inflow and outflow of cash.

No.	Indicator	2018 Score	Justification for 2018 Score
21.3	Information on commitment ceilings	B	The MoF provider's quarterly ceilings for public bodies and public bodies are able to plan commitments for at least a quarter.
21.	Significance of in-year budget adjustments	C	Significant in-year adjustments to budget allocations take place frequently but they are done in a transparent way.
PI-22	**Expenditure arrears**	**C+**	
22.1	Stock of expenditure arrears	A	The stock of expenditure arrears for at least two of the three years was 0.34% and 0.8%, which is less than 2%.
22.2	Expenditure arrears monitoring	C	Data on the stock and composition of expenditure arrears are generated annually at the end of each fiscal period.
PI-23	**Payroll controls**	**C+**	
23.1	Integration of payroll and personnel records	B	There is a direct link between personnel and payroll records for 44 BIs, through IFMIS. The 145 other government institutions use IBEX and have no direct link between personnel and payroll records. That said, all changes are fully supported by documentation as approved by authorized central government institution officials. Also, all hiring and promotion is done in accordance with approved staff posts.
23.2	Management of payroll changes	A	Personnel records and payroll are updated at least monthly in a timely manner before the next month's payroll, and retroactive adjustments are rare. While consolidated data on retroactive adjustments are not available, sampled evidence from the MoH and MoE show retroactive adjustments of less than 0.7%.
23.3	Internal control of payroll	B	Authority and basis for changes to personnel records and the payroll are clear and adequate; these ensure data integrity. Whereas 44 BIs have stronger payroll controls due to IFMIS, resulting in electronic audit trail, other 145 institutions on IBEX may have weaker controls due to manual interface even though it results in manual audit trail.
23.4	Payroll audit	C	Partial payroll audits have been conducted by OFAG, internal audit units across central government institutions, and the Inspection Directorate of the MoF. This is done each year as part of the routine financial and compliance audits. A comprehensive payroll audit has not been conducted for all central government entities within the last three completed fiscal years.
PI-24	**Procurement**	**D+**	
24.1	Procurement monitoring	D	Most of the BIs do not maintain databases or records for contracts including data on what has been procured, the value of procurement, and who has been awarded contracts. They prepare the performance report directly from the source document at the end.
24.2	Procurement methods	A	Available evidence from the FPPA suggests that 92.19% (by value) of contracts are awarded through open competitive method.
24.3	Public access to procurement information	D	Only two of the key procurement criteria have been met.
24.4	Procurement complaints management	D	Four of the six basic elements for procurement compliant management have been met but criterion (1) is not met.

No.	Indicator	2018 Score	Justification for 2018 Score
PI-25	**Internal controls on non-salary expenditure**	B	
25.1	Segregation of duties	A	The various financial management manuals indicate the segregation of duties between the various process in resource management including cash, supplies, fixed assets, payroll, procurement, and other related PFM functions.
25.2	Effectiveness of expenditure commitment controls	C	Budgetary controls are generally effective and expenditures commitments generally are to the extent of projected cash availability. There are certain instances where BIs may not be able to pay committed expenditures to contractors due to unavailability of cash.
25.3	Compliance with payment rules and procedures	B	Most of the payments are compliant with payment procedures. Most of the exceptions, though they are subject to noncompliance audit findings of internal auditors and OFAG, are authorized by the respective heads of BIs. Irregularities represent about 2% of the total expenditure.
PI-26	**Internal audit**	**D+**	
26.1	Coverage of internal audit	A	Central government units including EBUs representing about 97% of the central government expenditure and close to 100% of central government revenue have internal audit units.
26.2	Nature of audits and standards applied	C	Internal audit is mainly focused on compliance audit rather than systemic audit. All visited government institutions have submitted annual audit plans to the heads of their respective BIs and copies were shared with the Inspection Directorate of the MoF.
26.3	Implementation of internal audits and reporting	C	Visited entities implemented between 75% and 100% of their plan. As evidenced by submitted audit reports from 85.7% of the entities, it can be deduced that majority of the programmed audits were implemented.
26.4	Response to internal audits	D	Audited public bodies representing about 26% of the total central government expenditure responded on time.
Pillar VI. Accounting and reporting			
PI-27	**Financial data integrity**	**B**	
27.1	Bank account reconciliations	B	Treasury bank reconciliation is done on a monthly basis within four weeks by the Accounts Department at the MoF and likewise for budget units and extra-budgetary entities.
27.2	Suspense accounts	NA	There are no suspense accounts.
27.3	Advance accounts	C	In most cases, advance accounts reconciliations at the MoF are done on annual basis within two months of the end of the fiscal year while preparing the annual financial statements. Huge outstanding balances remain uncleared; in 2017/2018 they amounted to ETB 70.9 billion.
27.4	Financial data integrity process	B	In the case of IFMIS, the accounting software prompts for change of password periodically. However, IBEX (used by two-thirds of budget units) does not prompt for password change. However, audit trail exists in both systems.
PI-28	**In-year budget reports**	**D**	
28.1	Coverage and comparability of reports	D	Reports received from the sectors compare budget versus actual; however, there is no consolidated report prepared

No.	Indicator	2018 Score	Justification for 2018 Score
			at central government level which compares budget versus actual.
28.2	Timing of in-year reports	D	No consolidated budget execution reports are prepared at the federal level.
28.3	Accuracy of in-year budget reports	NA	No consolidated budget execution reports are prepared at the federal level.
PI-29	**Annual financial reports**	**C+**	
29.1	Completeness of annual financial reports	C	The annual financial statements for the federal government for the last completed fiscal year 2016/2017 include information on budget, revenue, expenditure, cash balances, financial assets, and financial liabilities, including medium- and long-term obligations, and are supported by a reconciled cash flow statement.
29.2	Submissions of reports for external audit	B	The EFY 2009 financial statement was submitted to the auditors within six months after the end of the fiscal year.
29.3	Accounting standards	C	No specific internationally accepted accounting standard is applied in the preparation of the public accounts of the federal government.
Pillar VII. External scrutiny and audit			
PI-30	**External audit**	**C+**	
30.1	Audit coverage and standards	B	The financial audit covers 100% of federal government BIs. EBUs also have been audited during the last three fiscal years. The audit is conducted in accordance with ISSAI standards, and significant findings are highlighted.
30.2	Submission of audit reports to the legislature	B	OFAG submitted consolidated audited annual financial statements of the Federal Government of Ethiopia within five months from the receipt of the reports from the MoF.
30.3	External audit follow-up	B	Management response to audit findings is included in the audit report. The audited entity submits a comprehensive management letter, including evidence of action, as applicable.
30.4	Supreme Audit Institution independence	C	The SAI is independent in practice. The AG’s budget is determined by the MoF within a financial ceiling in the same way as other BIs. OFAG does not have a systematic audit recommendation follow-up system.
PI-31	**Legislative scrutiny of audit reports**	**B**	
31.1	Timing of audit report scrutiny	A	PAC scrutinizes the audit report within 4 to 20 days of the receipt of the audit report from OFAG within the last three completed fiscal years.
31.2	Hearing on audit findings	C	In-depth hearing is conducted on audit reports of a few of the audited entities.
31.3	Audit recommendations by the legislature	B	As part of its follow-up mechanism, the PAC demands all central government audited entities with adverse audit findings to submit action plans with timelines on how these entities intend to address the audit findings from OFAG as well as recommendations issued by the PAC. It also receives at least biannual updates on progress made in terms of implementation of its recommendations.
31.4	Transparency of legislative scrutiny of audit reports	B	The hearing is recorded and broadcasted by the national television except sensitive and high-level security issues that are held in camera. The PAC reports are tabled in the full chamber for debate and consideration. Brief

No.	Indicator	2018 Score	Justification for 2018 Score
			summaries of the hearings are posted on the Facebook account of the HoPR. The full committee's report, though not published on the website, is obtainable at the Parliament's library.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	Organizational structures are clear, and positions are clearly defined. Clear reporting lines are established within the respective BIs and their branches and between the BIs and the executive, as well as with the oversight bodies. The Ministry of Public Service is responsible for reviewing of organizational structures, job grading, manning, and compensation scheme of federal government offices for their appropriateness. BIs are responsible for the recruitment, appraisal, manpower development, and termination of their employees in accordance with the applicable public service laws and regulations. However, because of the low level of staff compensation rate compared to the labor market, staff turnover is high and significantly affected the financial management functions of the government. About 49% of the internal audit positions at the federal government level are vacant. Each BI has an internal audit unit. The internal audit units have organizational independence. The internal audit units are functionally accountable to their BIs and administratively to the Inspection Directorate of the MoF. The Inspection Directorate also follows up on the implementation of internal audit findings. Key internal audit findings are also reported to the HoPR by the head of the MoF. The Financial Administration Proclamation requires the establishment of an Audit Committee. This is yet to be implemented. OFAG, which is an independent organization, conducts financial and performance audits with nearly 100% coverage with unlimited access to information in all federal BIs and their branches (with the exception of the Ministry of Defence and Security where its access is limited to unclassified information). The PAC scrutinizes audit findings. The compliance and responsiveness of management to findings and recommendations has improved over the years. There is an overall supportive attitude toward internal control systems, though this may not always be the case. Recurring audit findings in certain BIs imply noncompliance to rules and regulations. The Federal Government of Ethiopia has functioning government institutions that are supportive of ethical values and enforcement of the rule of law. The FEAC is responsible for prevention of corruption offences and improprieties and raising public awareness on anticorruption. The FEAC was also responsible for the investigation and prosecution of corruption offences until 2015, where these mandates transferred to the Federal Police and General Attorney.[36] The FEAC is accountable to the HoPR. It is also a member of the PAC, which attends and reviews audit findings and recommendations. The FEAC receives audit findings directly from OFAG as stipulated in the OFAG reestablishment proclamation. The FEAC has experience of collecting tips from informants to stop corrupt practices mainly in public procurement processes.[37] The FEAC has so far registered the assets of about 170,000 government officials in sensitive public positions. The FEAC conducts a joint monthly consultation meeting with Federal Police, AG, and Regional Anti-Corruption Commissions.

[36] Proclamation No 433/2005 - The Revised Proclamation for the Establishment of the Federal Ethics and Anti-corruption Commission. Proclamation 883/2015: Revised Federal Ethics and Anti-Corruption Commission Establishment (Amendment) Proclamation.

[37] The FEAC has 307 staff (as of January 2019). Its performance is affected by high staff turnover, with 120 vacant positions. In 2018, about 70 staff have resigned. Salary rate is the main factor for the turnover and inability to fill vacant positions.

Internal control components and elements	Summary of observations
	The Ethiopian Human Rights Commission (EHRC) receives and investigates all complaints on human rights violations made against any person, save cases brought before the HoPR, the HF, regional council, or before the courts of law, at any level.[38] The EHRC reported human rights abuses by individuals, groups, and government establishments in the past. Institution of the Ombudsman is another government organ established with the objective of bringing about good governance that is high quality, efficient and transparent and are based on the rule of law, by way of ensuring that citizen's rights and benefits provided for by law are respected by the executive. It supervises the administrative directives issued and the decision given by executive organs do not contravene the constitutional rights of citizens and the laws as well. It receives and investigates complaints in respect of maladministration; conducts supervision; seeks remedies; and makes recommendations on the revision of existing laws, practices, or directives.[39] However, the performance of this institution is not well known to the public. Outside institutions such as Transparency Ethiopia, which is a local chapter of Transparency International, and Construction Sector Transparency Initiative (COST) are also contributing to the overall integrity and ethical values of the public, government management, and staff. The Charities and Societies Proclamation (Proclamation No. 621/2009) significantly affects the scope of civil societies to work more on rights issues, transparency, and governance. This law is under revision and a draft law has been submitted to the HoPR. In Transparency International's Corruption Perception Index 2016/2017, Ethiopia was ranked 107 out of 180 countries, with a score of 35 on a scale where 100 means 'very clean' and 0 means 'highly corrupt'.[40] According to estimations of Global Financial Integrity (GFI), between 2005 and 2014, an estimated average of US$1,259 million to US$3,153 million left Ethiopia as illicit financial flows (IFFs) every year. IFFs from Ethiopia have led to an average loss in GDP growth of 2.2% per year. Most of the IFFs from Ethiopia originate from trade mis-invoicing. According to the GFI report, the legal approach adopted by the government does not seem to curb the problem. The low score in the Corruption Perception Index, the recurring audit findings of the internal auditing and OFAG, and the high-level corruption cases reported in grand investment projects indicate that integrity, transparency, and ethical values still require strengthening.
2. Risk assessment	The managements of BIs do not conduct organization-wide risk assessments to evaluate the impact of changes in the internal business process and external environment on the existing systems of internal control. ERA has an organizational-level risk strategy document which identified organizational risks and mitigation strategy. Some of the internal audit units conducted a risk rating as part of their annual audit plan. However, this is not prepared with the participation of management and is not in line with best practices in enterprise risk assessment. The risk assessments focus on compliance issues rather than identification and evaluation of the efficiency and effectiveness of existing internal control systems.
3. Control activities	Control activities are in place through policies outlined in the PFM-related proclamations and regulations. Segregation of duties in the procurement, disbursement, property management, accounting, recording, payroll, recruitment, auditing, budgetary control, account reconciliation, and revenue collection is clearly indicated in the various procedural manuals (PI-25). The procedures identify positions for preparation or initiating, reviewing, checking, authorizing, and approving resource movement such as disbursement, procurement, payroll, and assets. A few BIs may not strictly apply the

38 Proclamation No. 210/2000: Ethiopian Human Rights Commission Establishment.
39 Proclamation No. 211_2000 Institution of the Ombudsman Establishment.
40 https://www.transparency.org/news/feature/corruption_perceptions_index_2017.

Internal control components and elements	Summary of observations
	segregation of duties in property administration as reported by OFAG. Only those authorized have access to resources and documents. Only those provided with passwords have access to the financial database IBEX/IFMIS and payroll software. There is no procedure or policy to ensure effective control on the use of passwords in IFMIS/IBEX. Bank accounts are reconciled monthly. The internal audit units routinely verify financial transactions. Generally, most of the BIs comply with the established rules and regulations. As reported by OFAG, certain recurring irregularities in procurement, sufficiency of supporting documentation for disbursement, follow-up on receivables and payables, and revenue collections indicated the need to revisit the effectiveness and efficiency of the already established control activities. Performance appraisals are conducted using the BSC model. Departmental reports indicate the achievements based on predefined performance indicators. Some of the PFM units provide training. According to staff interviewed, the frequency and scope of trainings are not sufficient. Effectiveness of training programs is affected by employee turnover.
4. Information and communication	Generally, internal control procedures, duties, and responsibilities are clearly defined in the various proclamation, regulations, and procedure manuals. Government staff have access to policies and procedure manuals. Approved annual budgets are communicated on time to BIs. BIs submit their annual cash requirements and quarterly cash flow requirements to the Treasury. The Treasury communicates the drawing limit monthly to BIs. BIs are required to submit monthly financial reports and annual financial reports (PI-28, PI-29). BIs also report aging profiles of payables and receivables accounts. Internal audit units submit quarterly reports. The audit of OFAG is also submitted to Parliament. The MoF website provides information on proclaimed budget and debt. Budget execution reports are not available on the website. The annual financial statement of the Federal Government of Ethiopia provides information on budget execution. The accounting standard in use is a modified cash basis accounting and not compliant with IPSAS. The consolidated financial report issued by the MoF does not provide information on financial assets such as government investments in SOEs and disclosure on stock of debts. The full rollout of IFMIS is expected to enhance the quality and content of financial management reports and communications.
5. Monitoring	Managements of BIs review quarterly performance reports. The internal audit units report their findings and recommendations quarterly. Generally, the managements of BIs respond and take corrective actions to audit findings and recommendation and also act on quarterly performance reports. The internal audit units also monitor the implementation of audit findings and recommendation of OFAG. Some of the BIs' managements may not respond on time (PI-26, PI-30). OFAG follows up the implementation of previous audit findings. The Inspection Directorate at the MoF also monitors and follows up the implementation of audit findings reported by internal audit units. PAC also follows up implementation of audit findings. Despite the various ongoing monitoring and evaluation activities, the recurring nature of irregularities in various PFM aspects signals the need for more systemic audits, comprehensive risk assessments, and strong management commitment to take action.

Annex 3A: Sources of information

Indicator	Dimension	Data used
Pillar I. Budget reliability		
1. Aggregate expenditure outturn	1.1 Aggregate expenditure outturn	• Discussion with the MoF Budget Directorate and Accounts Directorate • Budget proclamation for 2015/2016, 2016/2017, and 2017/2018 • MoF Audited Accounts for 2015/2016 and 2016/2017 • MoF Draft Accounts for 2017/2018
2. Expenditure composition outturn	2.1 Expenditure composition by function	• Discussion with the MoF Budget Directorate and Accounts Directorate • Budget proclamation for 2015/2016, 2016/2017, and 2017/2018 • MoF Audited Accounts for 2015/2016 and 2016/2017 • MoF Draft Accounts for 2017/2018
	2.2 Expenditure composition by economic type	
	2.3 Expenditure from contingency reserves	
3. Revenue outturn	3.1 Aggregate revenue outturn	• Discussion with the MoF Budget Directorate and Accounts Directorate • Budget proclamation for 2015/2016, 2016/2017, and 2017/2018 • MoF Audited Accounts for 2015/2016 and 2016/2017 • MoF Draft Accounts for 2017/2018 • Annual Performance Report of the MoR
	3.2 Revenue composition outturn	
Pillar II. Transparency of public finances		
4. Budget classification	4.1 Budget classification	• CoA of federal government by the MoF 2015 • Financial reports of 2015/2016, 2016/2017, and 2017/2018
5. Budget documentation	5.1 Budget documentation	• Budget calls, recommended budget by the MoF to Parliament of 2015/2016, 2016/2017, 2017/2018, and 2018/2019; Volume II of EFY 2018/2019 recommended budget • Budget proclamation of 2015/2016, 2016/2017, 2017/2018, and 2018/2019 • Budget speech of 2015/2016, 2016/2017, 2017/2018, and 2018/2019
6. Central government operations outside financial reports	6.1 Expenditure outside financial reports	• Financial statements of Oil Stabilization Fund, Road Fund, Industrial Development Fund, and Pension and Social Security Fund for FY2015/2016, 2016/2017, and 2017/2018 • Establishment proclamation of Road Fund, Oil Stabilization Fund, and Pension and Social Security Fund
	6.2 Revenue outside financial reports	• Financial statements of Oil Stabilization Fund, Road Fund, Industrial Development Fund, and Pension and Social Security Fund for FY2015/2016, 2016/2017, and 2017/2018 • Establishment proclamation of Road Fund, Oil Stabilization Fund, and Pension and Social Security Fund
	6.3 Financial reports of extra-budgetary units	• Financial statements of Oil Stabilization Fund, Road Fund, Industrial Development Fund, and Pension

Indicator	Dimension	Data used
		and Social Security Fund for FY2015/2016, 2016/2017, and 2017/2018 • Establishment proclamation of Road Fund, Oil Stabilization Fund, and Pension and Social Security Fund
7. Transfers to subnational governments	7.1 System for allocating transfers	Grants/subsidies distribution formula (ECY 2011) for SNGs approved by Parliament
	7.2 Timeliness of information on transfers	Budget circular for 2017/2018; approved budget for 2017/2018
8. Performance information for service delivery	8.1 Performance plans for service delivery	• Discussion with budget directorate officials and staff • Budget proclamations FY2015/2016, 2016/2017, and 2017/2018 • Financial Administration Proclamation No. 648/2009 and Financial Administration (Amendment) Proclamation No. 970 /2016 • Federal government supplementary budget proclamation for FY2016/2017 • IBEX reports for 2017/2018 • Monthly financial reports prepared by sectors including ERA, MoA, MoE, and MoH • The assessment team's discussion with officials of the MoE and MoH • MoF website
	8.2 Performance achieved for service delivery	
	8.3 Resources received by service delivery units	
	8.4 Performance evaluation for service delivery	
9. Public access to fiscal information	9.1 Public access to fiscal information	• —MoF website
Pillar III. Management of assets and liabilities		
10. Fiscal risk reporting	10.1 Monitoring of public corporations	Data from 56 SOEs obtained from OFAG for FY2017/2018
	10.2 Monitoring of subnational governments	Annual financial statements from 5 SNGs plus dates of submission of annual financial statements to the MoF
	10.3 Contingent liabilities and other fiscal risks	Interview with officials of the MoF Fiscal Risk Department; consolidated annual financial statements for FY2017/2018
11. Public investment management	11.1 Economic analysis of investment proposals	Interview with officials from the Federal PDC; data on five largest investment projects for FY2017/2018
	11.2 Investment project selection	Interview with officials from the PDC
	11.3 Investment project costing	Project documents on five largest investments for FY2017/2018
	11.4 Investment project monitoring	Performance audit reports from OFAG; progress reports from the PDC
12. Public asset management	12.1 Financial asset monitoring	Consolidated annual financial statements for 2017/2018
	12.2 Nonfinancial asset monitoring	Individual fixed assets register (decentralized) from sample line ministries (education, health, roads)
	12.3 Transparency of asset disposal	• Article 67 of the Federal Government Procurement and Property Administration Proclamation No. 649/2009, dated September 9, 2009, and Directive No. 9/2010 • Sample lists of fixed assets disposed with newspaper publication for FY2017/2018 and disposal proceeds transferred to the MoF

Indicator	Dimension	Data used
13. Debt management	13.1 Recording and reporting of debt and guarantees	Data generated from DMFAS for 2017/2018 as well as current information up to December 2018; Quarterly debt bulletin, latest copy related to June 2018
	13.2 Approval of debt and guarantees	Article 40 (2) of the 2017 Financial Administration Proclamation No. 648/2009
	13.3 Debt management strategy	Current medium-term debt management strategy 2016–2020
Pillar IV. Policy-based fiscal strategy and budgeting		
14. Macroeconomic and fiscal forecasting	14.1 Macroeconomic forecasts	MEFF Volume I EFY 2011–2015 dated February EFY 2010, 2010–2014 dated February EFY 2019, and EFY 2009–2013 dated February EFY 2008 by the MoF
	14.2 Fiscal forecasts	MTEF of EFY 2011–2015 dated February EFY 2010, 2010–2014 dated February EFY 2019, and EFY 2009–2013 dated February EFY 2008 by the MoF
	14.3 Macro-fiscal sensitivity analysis	Fiscal policy in Ethiopia and recent developments by the MoF February 2018 No. 03/2018
15. Fiscal strategy	15.1 Fiscal impact of policy proposals	Fiscal policy in Ethiopia and recent developments by the MoF February 2018 No. 03/2018
	15.2 Fiscal strategy adoption	—
	15.3 Reporting on fiscal outcomes	Budget speech of EFY 2009–2011
16. Medium-term perspective in expenditure budgeting	16.1 Medium-term expenditure estimates	MTEF of EFY 2011–2015 dated February EFY 2010, 2010–2014 dated February EFY 2019, and EFY 2009–2013 dated February EFY 2008 by the MoF
	16.2 Medium-term expenditure ceilings	MEFF Volume I EFY 2011–2015 dated February EFY 2010, 2010–2014 dated February EFY 2019, and EFY 2009–2013 dated February EFY 2008 by the MoF
	16.3 Alignment of strategic plans and budgets	Recommended budget by the MoF to Parliament of 2015/2016, 2016/2017, 2017/2018, and 2018/2019; Volume II of EFY 2018/2019 recommended budget
	16.4 Consistency of budgets with previous year's estimates	Recommended budget by the MoF to Parliament of 2015/2016, 2016/2017, 2017/2018, and 2018/2019; Volume II of EFY 2018/2019 recommended budget
17. Budget preparation process	17.1 Budget calendar	Budget Directive No. 13/1993; Financial Calendar
	17.2 Guidance on budget preparation	Budget circular to BIs by the MoF, dated February 2018; Program budget preparation manual
	17.3 Budget submission to the legislature	Cover letter of budget submission to Parliament dated June 2, 2018
18. Legislative scrutiny of budgets	18.1 Scope of budget scrutiny	Budget proclamation of EFY 2009, 2010, and 2011 and Finance Administration Proclamation No. 970/2016 and Financial Administration Regulation No. 190/2010
	18.2 Legislative procedures for budget scrutiny	Budget proclamation of EFY 2009, 2010, and 2011 and Finance Administration Proclamation No. 970/2016
	18.3 Timing of budget approval	Budget proclamation Negarit Gazette of FY2009, 2010, and 2011
	18.4 Rules for budget adjustment by the executive	Budget proclamation of EFY 2009, 2010, and 2011 and Finance Administration Proclamation No. 970/2016 and Financial Administration Regulation No. 190/2010

Indicator	Dimension	Data used
Pillar V. Predictability and control in budget execution		
19. Revenue administration	19.1 Rights and obligations for revenue measures 19.2 Revenue risk management 19.3 Revenue audit and investigation 19.4 Revenue arrears monitoring	• Discussion with the MoR, Ethiopian Chamber of Commerce, MoF Tax Policy Directorate • MoR website (www.erca.gov.et) • MoR Risk Management Policy and Strategy • Tax Administration Proclamation No. 983/2016 • MoR annual audit plan • MoR annual performance report for 2017/2018 • MoR monthly report submitted to the MoF for December 2018
20. Accounting for revenue	20.1 Information on revenue collections 20.2 Transfer of revenue collections 20.3 Revenue accounts reconciliation	• Discussion with the MoR and MoF Fiscal Policy and Treasury Directorates • MoR monthly report submitted to the MoF for December 2018 • MoR annual performance report for 2017/2018 • MoR revenue reconciliation
21. Predictability of in-year resource allocation	21.1 Consolidation of cash balances 21.2 Cash forecasting and monitoring 21.3 Information on commitment ceilings 21.4 Significance of in-year budget adjustments	• Discussion with the Accounts and Budget Department officials at the MoF, MoE, MoA, and MoH • Cash flow forecast and related updates on quarterly basis • Financial Administration Proclamation No. 648/2009 and Financial Administration (Amendment) Proclamation No. 970/2016 • Federal government supplementary appropriations for FY2017/2018 • List of in-year adjustments obtained from the MoF • MoF website
22. Expenditure arrears	22.1 Stock of expenditure arrears	Financial statements of FY2008, 2009, and 2010 from Accounts Directorate of the MoF and big ministries having the lion's share of the budget (ERA, MoE, MoA, MoH)
	22.2 Expenditure arrears monitoring	Financial statements of FY2008, 2009, and 2010 from Accounts Directorate of the MoF and big ministries having the lion's share of the budget (ERA, MoE, MoANR, MoH) and Treasury Directorate of MoF
23. Payroll controls	23.1 Integration of payroll and personnel records	IFMIS payroll module of the MoF; Guidelines on the preparation of Payroll; Submission of time sheets by each department of all the BIs
	23.2 Management of payroll changes	Letters written by the HRM Department of all ministries to the Finance Department which is in charge of the payroll preparation every month
	23.3 Internal control of payroll	Monthly submission to HR of changes by each department with the list of staff eligible for payment of salary, and the password for the submission of the change is given to one responsible person.
	23.4 Payroll audit	External audit report by OFAG, internal audit reports, and audit reports of the Inspection Directorate of the MoF

Indicator	Dimension	Data used
24. Procurement	24.1 Procurement monitoring	• Performance report of procurement by FPPA for FY2008, 2009, and 2010 • Procurement and Property Administration Proclamation No. 649/2009 • Quarterly procurement performance reports of PPDS, MoE, MoF, and MoH
	24.2 Procurement methods	Performance report of procurement by FPPA for FY2008, 2009, and 2010
	24.3 Public access to procurement information	Website of FPPA (www.ppa.gov.et) and bulletins of FPPA in FY2009 and 2010
	24.4 Procurement complaints management	• Procurement and Property Administration Proclamation No. 649/2009 • Complaint application and minutes of the Complaint Resolution Board • Responses to the complaints written by the Board
25. Internal controls on non-salary expenditure	25.1 Segregation of duties 25.2 Effectiveness of expenditure commitment controls 25.3 Compliance with payment rules and procedures	• Discussion with Internal Audit and Accounting Units of the MoE, MoA, MoH, and ERA • Quarterly internal audit reports of 2017/2018, 2016/2017, and 2015/2016 of the MoE, MoA, MoH, and ERA • Proclamation No. 916/2015: Definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia Proclamation • Discussion with Inspection Directorate - MoF and its annual performance report issued in June 2018 • Discussion with Parliament • Internal audit reports and OFAG reports o Three years' internal audit reports of major BIs and the last three years' audit reports submitted by OFAG • Financial administration proclamations and regulations o Financial Administration Proclamation No. 970/2016 o Financial Administrator Regulation No. 190/2010 o Administrative Penalties (Procedure) for Non-compliance to Financial Accountability (48/2017) o Public Finance Transparency and Accountability Manual (51/2018) o Cost Reduction Strategy Manual (2017) o Guideline/manual for the procurement of goods and services (2011) o Manual for Cash Management (2011) o Cash Disbursement Manual (2011) o Accounting Procedure (2011) o Budget Administration Manual (2011) o Financial Accountability (2011) o Internal Audit Manual (2011) o Internal Control Standards (2011) o Property Administration (2011) o Handover Procedure (2011) o Procedure on Guarantor (2011) o Procurement (2010)

Indicator	Dimension	Data used
		○ Federal Government of Ethiopia Accounting Manual • Discussion with the MoF - Accounts Directorate team • Discussion with the FEAC and Transparency International on the overall internal control environment at the national level • For internal control framework, ○ Illicit financial flows in Ethiopia_2018, Transparency International ○ Various bulletins of Transparency International's Ethiopian Chapter and discussion with the Executive Director of the Ethiopian Chapter ○ Proclamation-no-883-2015-revised-federal-ethics-and-anti-corruption-commission
26. Internal audit	26.1 Coverage of internal audit 26.2 Nature of audits and standards applied 26.3 Implementation of internal audits and reporting 26.4 Response to internal audits	• Proclamations, regulations, and manuals ○ Financial Administration Proclamation No. 970/2016 ○ Financial Administrator Regulation No. 190/2010 Internal Audit Manual - 2004 ○ Internal Audit Training Module - 2005 ○ Internal Audit Reporting Procedure Manual - 2010 ○ Performance Audit Manual and Implementation Guide - 2013 ○ Internal Control Guideline • Quarterly internal audit reports of 2017/2018, 2016/2017, and 2015/2016 of the MoE, MoA, MoH, and ERA • Annual audit plans of major BIs • Discussion with Inspection Directorate team • Annual performance report of Inspection Directorate - 2017/2018 • OFAG impression on the performance of Internal Audit Units - Discussion with OFAG team • Internal audit reports, letters on management responses, minutes, audit plans, audit performance reports (MoE, MoH, MoA, ERA) • IPPF standard 2017, section 2100: Nature of Work • Staffing status note received from Inspection Directorate
Pillar VI. Accounting and reporting		
27. Financial data integrity	27.1 Bank account reconciliation 27.2 Suspense accounts 27.3 Advance accounts 27.4 Financial data integrity processes	• Discussion with the Accounts Department officials at the MoF, MoE, MoA, and MoH • Monthly bank reconciliations prepared and incorporated in the accounts of the federal government • Monthly financial reports submitted by BIs to the MoF • Bank reconciliations in the visited sectors including ERA, the MoE, MoH, and MoA • Financial statements prepared by the MoF, MoE, ERA, MoH, and MoA for FY2016/2017

<table>
<tr><th>Indicator</th><th>Dimension</th><th>Data used</th></tr>
<tr><td></td><td></td><td>IBEX CoA
Financial Manual of the federal government
Details of advance accounts at the consolidated financial statements
Discussion with IFMIS and IBEX team at the MoF
MoF website</td></tr>
<tr><td rowspan="3">28. In-year budget reports</td><td>28.1 Coverage and comparability of reports</td><td rowspan="3">Monthly detailed reports prepared by BIs and submitted to the MoF
Discussion with Budget Directorate officials
Federal government supplementary appropriations for FY2017/2018
Budget revision/adjustment reports
Financial Administration Proclamation No. 648/2009 and Financial Administration (Amendment) Proclamation No. 970/2016
Financial Management Manual of the federal government</td></tr>
<tr><td>28.2 Timing of in-year budget reports</td></tr>
<tr><td>28.3 Accuracy of in-year budget reports</td></tr>
<tr><td rowspan="3">29. Annual financial reports</td><td>29.1 Completeness of annual financial reports</td><td rowspan="3">Financial Administration Proclamation No. 648/2009 and Financial Administration (Amendment) Proclamation No. 970/2016
Discussion with the MoF Accounts Directorate team including the head and the accountants in the Directorate
Financial Management Manual of the federal government
Annual accounts of the federal government for 2016/2017 (EFY 2009)
Financial statements submission covering letter for FY2015/2016 and 2016/2017
IBEX software reports for 2016/2017 and 2017/2018
IFMIS software for 2017/2018
IMF review on accounting system of the Ethiopian government
MoF website</td></tr>
<tr><td>29.2 Submissions of reports for external audit</td></tr>
<tr><td>29.3 Accounting standards</td></tr>
<tr><td colspan="3">Pillar VII. External scrutiny and audit</td></tr>
<tr><td rowspan="4">30. External audit</td><td>30.1 Audit coverage and standards</td><td rowspan="4">Discussion with the OFAG team
Proclamation and regulations
Constitution of the Federal Democratic Republic of Ethiopia 1995
Proclamation No. 982/2016
Proclamation No. 809/2013 on the Defence Forces of the Federal Democratic Republic of Ethiopia
Proclamation No. 804/2014 to Re-establish the National Intelligence and Security Service
Financial Administration Proclamation No. 970/2016
Audit report on the consolidated fund of the Federal Government of Ethiopia by OFAG
For EFY 2007 (2014/15)
For EFY 2008 (2015/2016)
For EFY 2009 (2016/2017)</td></tr>
<tr><td>30.2 Submission of audit reports to the legislature</td></tr>
<tr><td>30.3 External audit follow-up</td></tr>
<tr><td>30.4 Supreme Audit Institution independence</td></tr>
</table>

Indicator	Dimension	Data used

		• Covering letter on submission of draft financial reports to OFAG, covering letters on the submission of audited financial statements by OFAG to the PAC
		• Management response letters issued by audited entities of major BIs (from OFAG)
		• Follow-up reports of Internal Audit Units of the MoA and MoE on the findings of OFAG
		• Peer review reports
		  ○ Peer review on the Independence of the Office of the Federal Audit General Ethiopia, 2016 by INTOSAI
		  ○ Peer review report by INTOSAI-E, 2017
		• Discussion with the FEAC

31. Legislative scrutiny of audit reports	31.1 Timing of audit report scrutiny 31.2 Hearings on audit findings 31.3 Audit recommendations by the legislature 31.4 Transparency of legislative scrutiny of audit reports	• Discussion with the OFAG team • Discussion with the PAC members • Audit reports • Constitution of the Federal Democratic Republic of Ethiopia 1995 • Proclamation No. 982/2016

Other surveys and analytical materials used

- 2017 TADAT Report
- IMF Article IV Report No. 18/18, dated January 2018

Annex 3B: List of stakeholders interviewed

Name	Organization	Position	Telephone	Email
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Annex 4: Tracking change in performance based on the 2011 PEFA Framework

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM OUTTURNS: Credibility of the budget				
PI-1 Aggregate expenditure outturn compared to original approved budget	**A**	**B**	Aggregate expenditure outturn (excluding donor grants) deviated by more than 5% in at least two of the last three years (111.8% in 2015/2016, 105.7% in 2016/2017 and 98.4% in 2017/2018).	**Deterioration in score and performance.** The aggregate expenditure outturn deviated by more than 5% in at least two of the last three years while it was less than 5% in the previous assessment (8.2% in 2010/11, 3.1% in 2011/12, and 1.1% in 2012/13). The largest variance occurred in 2015/2016 because capital expenditure was 12% above budget financed mainly by assistance and borrowing.
PI-2 Expenditure composition outturn compared to original approved budget	**B+**	**D+**		**Deterioration in score and performance due to dimension (i).**
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	B	D	Expenditure composition variance for at least two of the last three years was more than 15% (24.8% in 2015/2016, 26.6% in 2016/2017, and 23.6% in 2017/2018).	**Deterioration in score and performance.** Expenditure variance significantly increased mainly due to non-utilization of allocated budget and unbudgeted customs payments on goods imported by different public bodies through assistance and borrowing.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	Average expenditure charged to contingency reserves for the last three years was 0.04% of the total expenditure.	No change
PI-3 Aggregate revenue outturn compared to original approved budget	**B**	**C**	Actual revenue outturns were 102.9% in 2015/2016, 93.7%	**Deterioration in score and performance.** Low achievement of revenue target mainly

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			in 2016/2017, and 93.8% in 2017/2018	due to low domestic tax revenue collection.
PI-4 Stock and monitoring of expenditure payment arrears	**A**	**C+**		**No change in performance**
(i) Stock of expenditure payment arrears and a recent change in the stock	A	A	The stock of expenditure arrears for at least two of the three years was 0.34% and 0.8% which is less than 2%.	No change
(ii) Availability of data for monitoring the stock of expenditure payment arrears	A	C	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal period.	No change as the previous assessment overrated the dimension.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency				
PI-5 Classification of the budget	**B**	**B**	The budget formulation and execution is based on administrative, economic, and functional classification, using GFS/COFOG standards or a standard that can produce documentation that is consistent according to those standards.	**No change**
PI-6 Comprehensiveness of information included in budget documentation	**B**	**B**	Recent budget documentation fulfils 5 of the 9 information benchmarks.	**No change in score or performance** as also in 2015, 5 out of 9 benchmarks were met.
PI-7 Extent of unreported government operations	**D+**	**B+**		**Improvement in performance**
(i) Level of unreported government operations	B	B	The level of unreported central government expenditure is between 1% and 5% of the total.	No change
(ii) Income/expenditure information on donor-funded projects	D	A	Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal	**Improvement in performance**. All loans are captured by the debt department, which entails that they are included in the budget and the

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			reports, except inputs provided in kind.	accounts. Article 3 of the budget proclamation requires grants to be reported if proclaimed.
PI-8 Transparency of intergovernmental fiscal relations	**A**	**A**		**Improvement in both score and performance, due to dimension (ii).**
(i) Transparency and objectivity in the horizontal allocation among subnational governments	A	A	Transfers to regional governments are based on transparent rules; these rules are approved by Parliament.	No change
(ii) Timeliness and reliable information to SNGs on their allocations	B	A	The federal government provides reliable information to regional governments for the preparation of their detailed budget, two months ahead of the start of their budget process.	**Improvement in both score and performance**; regional governments receive reliable information on their allocations two months before the start of their detailed budget process.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	A	Within 10 months after the end of the previous fiscal year, the federal government consolidates subnational fiscal information.	No change
PI-9 Oversight of aggregate fiscal risk from other public sector entities	**C**	**C**		**No change**
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	C	Autonomous government entities and public entities submit annual financial statements to the federal government at least annually; however, a consolidated fiscal risk report is not prepared.	No change
(ii) Extent of central government monitoring of SNGs' fiscal position	C	C	All regional and city governments submit annual financial statements to the federal government. There is however no consolidation of the	No change even though rules on SNG borrowings have been promulgated.

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			fiscal risk position of these SNGs.	
PI-10 Public access to key fiscal information	**C**	**C**	The government makes available to the public two of the listed types of information.	**No change**
C. BUDGET CYCLE				
C(i) Policy-Based Budgeting				
PI-11 Orderliness and participation in the annual budget process	**A**	**A**		**Deterioration in performance due to dimension (ii)**
(i) Existence of, and adherence to, a fixed budget calendar	A	A	A clear budget calendar exists, is generally adhered, and allows enough time (6 weeks) for the budget units to meaningfully complete their estimates on time.	No change
(ii) Guidance on the preparation of budget submissions	A	B	A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by the Council of Ministers. This approval takes place after the circular distribution to MDAs but before the MDAs have completed their submission.	**Deterioration in performance.** In the period covered by the 2015 PEFA Assessments, ceilings were approved by the Council of Ministers before the BCC was issued to budgetary units.
(iii) Timely budget approval by the legislature	A	A	Parliament has approved the budget before the start of the fiscal year for the last three years.	**No change**
PI-12 Multiyear perspective in fiscal planning, expenditure policy, and budgeting	**B**	**NR**		**Not comparable**
(i) Multiyear fiscal forecasts and functional allocations	A	A	Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis.	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			Links between multiyear estimates and subsequent setting of annual budget ceilings are clear and differences explained.	
(ii) Scope and frequency of DSA	A	A	A DSA for external and domestic debt is undertaken annually.	No change
(iii) Existence of costed sector strategies	C	NR	No sector strategy was provided to the team.	No sector strategy was provided to the team.
(iv) Links between investment budgets and forward expenditure estimates	C	C	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.	No change
C(ii) Predictability and Control in Budget Execution				
PI-13 Transparency of taxpayer obligations and liabilities	**A**	**B+**		**Deterioration in both score and performance due to dimension (i).**
(i) Clarity and comprehensiveness of tax liabilities	A	B	Legislation and procedures for most taxes are comprehensive and clear, with limited discretionary powers of the revenue authority.	Deterioration in both score and performance. Private sector complained about non clarity of tax laws.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	A	Taxpayers have easy access to comprehensive, user friendly, and up-to-date information on tax liabilities and procedures, and the revenue authority supplements this with taxpayer education campaigns.	No change
(iii) Existence and functioning of a tax appeal mechanism	B	B	A tax appeals system of transparent administrative procedures is functional, but there are issues on its fairness.	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**B**	**B**		**No change**
(i) Controls in the taxpayer registration system	B	B	Taxpayers are registered in a database with some links to trade licensing and company registration systems.	Introduced remote registration of taxpayers out of the country; however, links to all other government registration systems and financial sector regulations are not yet comprehensive and therefore not all potential taxpayers are routinely captured in the tax net.
(ii) Effectiveness of penalties for noncompliance with registration and declaration obligations	B	B	Penalties exist but are not always effective.	No change
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	B	Tax audits and fraud investigations are managed and reported on according to a documented audit plan with clear risk assessment criteria.	No change
PI-15 Effectiveness in collection of tax payments	**D+**	**NR**		**Not comparable**
(i) Collection ratio for gross tax arrears	B	NR	Not rated, data not available.	Not rated, data not available.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	B	Revenues collected by the ERCA are transferred to the Treasury within a week.	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	D	D	Complete reconciliation of tax assessed, collected, and transferred and arrears is not done.	No change
PI-16 Predictability in the availability of funds	**C+**	**C+**		**No change**

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
for commitment of expenditures				
(i) Extent to which cash flows are forecasted and monitored	A	B	Cash flows forecasts are prepared but they are updated only on quarterly basis.	Cash requests were considered as cash flow forecast on previous assessment.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	B	B	Some large ministries are even allowed to plan for a year.	No change
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	C	C	There are frequent adjustments to the budget.	No change
PI-17 Recording and management of cash balances, debt, and guarantees	**B**	**B**		**No overall change**
(i) Quality of debt data recording and reporting	B	B	Both foreign and domestic debt are recorded using DMFAS, which is complete, reconciled, and updated at least every three months with creditor statements. Statistical reports are generated quarterly and annually; these reports are comprehensive.	No change
(ii) Extent of consolidation of the government's cash balances	B	C	As shown under PI 21.1, at least 76% of government cash and bank balances are consolidated at least monthly.	Deterioration in both score and performance
(iii) Systems for contracting loans and issuance of guarantees	C	B	Both loans and guarantees are authorized by the MoF and approved by Parliament within set limits.	Improvement in both score and performance; both loans and guarantees are authorized by the MoF and approved by Parliament within set limits.
PI-18 Effectiveness of payroll controls	**B+**	**C+**		**No overall Change. Dim (iii) seems**

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
				overrated in the previous assessment
(i) Degree of integration and reconciliation between personnel records and payroll data	B	B	There is a direct link between personnel and payroll records for 44 BIs, through IFMIS. A total of 145 other government institutions use IBEX and have no direct link between personnel and payroll records. That said, all changes are fully supported by documentation as approved by authorized central government institution officials. Also, all hiring, and promotion is done in accordance with approved staff posts.	No change
(ii) Timeliness of changes to personnel records and the payroll	A	A	Personnel records and payroll are updated at least monthly and retroactive adjustments are rare and less than 3%.	No change
(iii) Internal controls of changes to personnel records and the payroll.	B	B	Authority and basis for changes to personnel records and the payroll are clear and adequate; these ensure data integrity. Whereas 44 BIs have stronger payroll controls due to IFMIS, resulting in electronic audit trail, other 145 Bis on IBEX may have weaker controls due to manual interface even though it results in manual audit trail	No change
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	B	C	Partial payroll audits have been conducted by OFAG, internal audit units across central government institutions, and Inspection Directorate of the MoF. This is	The same practice is applied as was in 2015. The 2015 rating seems overrated as there are no procurement audits conducted then apart from part of financial

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			done each year as part of the routine financial and compliance audits. A comprehensive payroll audit has not been done for all central government entities within the last three completed fiscal years.	audits by OFAG and internal audit units.
PI-19 Competition, value for money, and controls in procurement	**C+**	**NR**	—	**Not comparable**
(i) Transparency, comprehensiveness, and competition in the legal and regulatory framework	B	B	Four of the listed requirements are met.	No change
(ii) Use of competitive procurement methods	D	NR	For EFY 2010 (2017/2018), the report shows 92.18% (by value) is procured on the basis of the open bidding method of procurement. There are no reliable data to assess the justification for the use of a non-competitive method of procurement even for those that amount to 7.82% (by value).	Not comparable
(iii) Public access to complete, reliable, and timely procurement information	C	C	At least two of the key procurement information elements are complete and reliable for government units, representing 50% of procurement operations (by value) and made available to the public through appropriate means.	No change
(iv) Existence of an independent administrative procurement complaints system	B	B	The complaints system meets criteria (i) and (ii) and four of the other five criteria.	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
PI-20 Effectiveness of internal controls for non-salary expenditure	**B**	**C+**		**Deterioration in Both score and performance for dimension (i)**
(i) Effectiveness of expenditure commitment controls	B	C	Budgetary controls are generally effective and expenditure commitments generally are to the extent of projected cash availability. There are certain instances where BIs may not be able to pay committed expenditures to contractors due to unavailability of cash.	Deterioration in both score and performance
(ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures	B	B	Trainings are provided to PFM staff members periodically. Manuals and guidelines are available in printed formats. Some of the guidelines are available from the MoF website. The audit findings of internal audit and external audit shows the compliance faults mainly in the disbursement cycle including authorization of payments which do not comply with procurement and other regulations. Payments without sufficient documentation were also reported by internal audit and external audit reports.	No significant change in performance
(iii) Degree of compliance with rules for processing and recording transactions	B	B	Most payments comply with payment procedures. Most of the exceptions, though they are subject to noncompliance audit findings of internal auditors and OFAG, are authorized by the	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			respective heads of BIs.	
PI-21 Effectiveness of internal audit	**B+**	**C+**		**No main change**
(i) Coverage and quality of the internal audit function	B	C	All the Federal Government of Ethiopia ministries and agencies have internal audit units. Of the total of 1,794 internal audit staff requirement to all federal government BIs, 904 positions are filled and the remaining 890 positions are vacant, representing about 50% of the workforce. The audit coverage is mainly focused on the financial audit of Treasury with limited coverage to the audit of project funds and other audits.	No change in overall performance; 2015 score was overrated. Performance has, however, actually improved, due to positive changes in terms of organization of the Inspection Directorate and its role in strengthening internal audit units.
(ii) Frequency and distribution of reports	A	A	Audit reports are distributed to the MoF and auditee management. The PFM regulations do not require submission of internal audit reports to OFAG. Nonetheless, internal audit reports are available to OFAG on demand.	No change
(iii) Extent of management response to internal audit function	B	B	Auditees take quick action on internal audit findings.	No change
C(iii) Accounting, Recording, and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation	**A**	**C+**		**Deterioration in both score and performance**
(i) Regularity of bank reconciliation	A	B	Treasury Bank reconciliation for FY2017/2018 was done on a monthly basis within four weeks by the Accounts Department	At the time of assessment, deterioration in performance of bank reconciliation was noted; the Treasury Department at the MoF

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			at the MoF.	was new to bank reconciliation.
(ii) Regularity and clearance of suspense accounts and advances	A	C	There are no suspense accounts. However, advance accounts exist; these are reconciled annually within two months after year-end, but significant balances are brought forward.	Deterioration in both score and performance
PI-23 Availability of information on resources received by service delivery units	**NA**	**NA**	The federal government does not manage service delivery units.	**No change**
PI-24 Quality and timeliness of in-year budget reports	**C+**	**D**		**No change as the 2015 assessment was overrated**
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	D	There are no consolidated reports comparing budget versus actual.	Previous assessments and rating considered the IBEX reports on federal BIs as a consolidated report but these reports were not printed, presented, and analyzed.
(ii) Timeliness of the issue of reports	B	D	No budget report at federal level	Previous assessments and rating considered the IBEX reports on federal BIs as a consolidated report but these reports were not printed, presented, and analyzed.
(iii) Quality of information	C	D	No budget report at federal level	Since there are no reports, it is difficult to comment on the quality of information.
PI-25 Quality and timeliness of annual financial statements	**C+**	**C+**		**No Change**
(i) Completeness of the financial statements	A	A	The annual financial statements for the federal government for the last completed fiscal year, 2016/2017, include information on budget, revenue, expenditure, and cash balances.	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(ii) Timeliness of submissions of the financial statements	B	A	The MoF is submitting financial statements for the auditors within six months after the end of each fiscal year. The 2016/2017 (EFY 2009) financial statement was submitted within six months after the year-end.	Improvement in both score and performance
(iii) Accounting standards used	C	C	National accounting standards are applied consistently; these are disclosed in the financial statements.	No change
C(iv) External Scrutiny and Audit				
PI-26 Scope, nature, and follow-up of external audit	**B+**	**B+**		**No change**
(i) Scope/nature of audit performed (including adherence to auditing standards)	A	A	The financial audit covers 100% of federal government institutions. EBUs also have been audited during the last three fiscal years. The audit is conducted in accordance with ISSAI standards, and significant findings are highlighted. OFAG also conducts performance audits; 18 reports were issued in 2018.	The performance of OFAG has been improved generally. No change
(ii) Timeliness of submission of audit reports to the legislature	A	B	OFAG submitted consolidated audited annual financial statements of the Federal Government of Ethiopia to Parliament within five months from the receipt of the reports from the MoF.	Both score and performance declined. During the 2014 assessment, all the audited financial statements were submitted within four months.
(iii) Evidence of follow-up on audit recommendations	B	B	Management response to audit findings is included in the audit report. The audited entity submits a comprehensive management letter,	There is no change in performance. However, an initiative for the implementation of in-house developed software for a systematic tracking of audit recommendation

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			including evidence of action as applicable. Audit follow-ups are largely during subsequent audits.	is under implementation—backlog data on outstanding audit recommendations yet to be updated.
PI-27 Legislative scrutiny of the annual budget law	**B+**	**B+**		**No change**
(i) Scope of the legislature scrutiny	B	B	The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.	No change in score and overall performance though in 2015 the BFC was also examining the MEFF. The PA rated the dimension 'B' nonetheless as it considered that medium-term priorities were not covered by the legislative scrutiny.
(ii) Extent to which the legislature's procedures are well established and respected	A	A	The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.	No change
(iii) Adequacy of time for the legislature to provide a response to budget proposals	A	B	Though the time allowed by the legal framework is two months, the BFC at Parliament has just over one month to review the budget as it has close to five weeks to review the budget proposal and receive the MTFF in February (even if Parliament did not review the proposal for the scrutiny of the FY2018/2019 Budget).	No change; the PA overrated the dimension as it focused on the time allowed to review the budget in theory rather than in practice.
(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature	B	B	Clear rules exist for in-year budget amendments by the executive and are usually respected, but	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			they allow extensive administrative reallocations.	
PI-28 Legislative scrutiny of external audit reports	**D+**	**C+**		**Improvement in both score and performance**
(i) Timeliness of examination of audit reports by the legislature	C	A	The PAC scrutinized the audit report within 4 to 20 days from the receipt of the audit report from OFAG within the last three completed fiscal years.	Improvement in both score and performance
(ii) Extent of hearing on key findings undertaken by the legislature	B	B	In-depth hearing is held for entities with qualified or adverse audit opinion involving officials of audited entities.	No change
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	C	The PAC issues recommendations to the executive but most of these recommendations are not implemented	Improvement in both score and performance
D-1 Predictability of direct budget support	A	NU	Deemed not relevant	Not comparable
(i) Annual deviation of actual budget support from forecast	A	NU	Deemed not relevant	Not comparable
(ii) In-year timeliness of donor disbursements	A	NU	Deemed not relevant	Not comparable
D-2 Financial information provided by donors for budgeting and reporting on projects and programs	D+	**NU**	Deemed not relevant	**Not comparable**
(i) Completeness and timeliness of budget estimates by donor for project support	C	NU	Deemed not relevant	Not comparable
(ii) Frequency and coverage of reporting by donors on actual flows for project support	D	NU	Deemed not relevant	Not comparable
D-3 Proportion of aid that is managed by use of national procedures	D	**NU**	Deemed not relevant	**Not comparable**

Note: NR = Not Rated (for lack of information); NU = Not Used.

Annex 5: Data used for scoring PI-1, PI-2, and PI-3 (2016 methodology)

Analysis for PI-1: FY2015/2016

Data for year = 2015/2016 (ETB, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Organ of State	1,164.4	2,122.2	1,255.3	866.9	866.9	69.1
Justice and Security	5,450.1	5,167.5	5,875.7	−708.2	708.2	12.1
Defence	9,500.0	9,182.5	10,241.9	−1,059.3	1,059.3	10.3
General Service	4,306.7	5,643.7	4,643.0	1,000.7	1,000.7	21.6
Agricultural and Rural Development	9,125.6	15,156.2	9,838.2	5,318.0	5,318.0	54.1
Water Resources and Energy	6,771.5	8,984.8	7,300.3	1,684.6	1,684.6	23.1
Trade and Industry	796.0	650.3	858.2	−207.9	207.9	24.2
Mines	255.5	169.5	275.4	−105.9	105.9	38.5
Transport and Communication	1,197.2	715.8	1,290.7	−575.0	575.0	44.5
Urban Development and Construction	36,112.2	26,651.1	38,932.2	−12,281.1	12,281.1	31.5
Education	32,927.5	34,252.2	35,498.8	−1,246.6	1,246.6	3.5
Culture and Sport	1,096.6	943.2	1,182.2	−239.0	239.0	20.2
Health	6,375.4	8,476.4	6,873.3	1,603.1	1,603.1	23.3
Labour and Social Affairs	73.4	91.9	79.1	12.8	12.8	16.2
Prevention and Rehabilitation	38.4	18,673.0	41.4	18,631.6	18,631.6	44,978.1
Transfer	4,034.9	2,709.0	4,350.0	−1,641.1		
Others	700.0	654.6	754.7	−100.0	100.0	13.3
Subsidies to Region	88,808.6	84,790.4	95,743.8	−10,953.4	10,953.4	11.4
Allocated expenditure	208,734.12	225,034.35	225,034.35	0	56,594.03	
Interests	8,443.7	7,231.0				
Contingency	2,760.0	116.0				
Total expenditure	219,937.85	232,381.35				
Aggregate outturn (PI−1)						105.70
Composition (PI−2) variance						25.10
Contingency share of budget						0.06

Analysis for PI-1: FY2016/2017

Data for year = 2016/2017 (ETB, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Organ of State	1,726.6	2,814.6	1,800.7	1,014.0	1,014.0	56.3
Justice and Security	5,456.0	5,572.7	5,690.0	−117.3	117.3	2.1
Defence	11,000.0	11,318.5	11,471.7	−153.3	153.3	1.3
General Service	6,182.9	7,375.0	6,448.1	926.9	926.9	14.4
Agricultural and Rural Development	9,627.2	20,158.1	10,040.1	10,118.0	10,118.0	100.8
Water Resources and Energy	8,799.9	7,904.9	9,177.3	−1,272.4	1,272.4	13.9
Trade and Industry	965.6	964.4	1,007.0	−42.5	42.5	4.2
Mines	318.0	228.3	331.6	−103.3	103.3	31.2
Transport and Communication	1,498.5	847.3	1,562.8	−715.5	715.5	45.8
Urban Development and Construction	49,683.6	27,669.7	51,814.3	−24,144.7	24,144.7	46.6
Education	39,778.5	42,471.8	41,484.5	987.3	987.3	2.4
Culture and Sport	1,292.0	1,021.6	1,347.4	−325.8	325.8	24.2
Health	8,188.6	7,672.8	8,539.7	−866.9	866.9	10.2
Labour and Social Affairs	82.1	114.2	85.6	28.6	28.6	33.4
Prevention and Rehabilitation	126.9	11,496.3	132.3	11,364.0	11,364.0	8,586.7
Transfer	3,000.0	3,835.3	3,128.7	706.7	706.7	22.6
Others	5,834.9	623.5	6,085.2	−5,461.6	5,461.6	89.8
Subsidies to Region	99,871.7	112,212.7	104,154.8	8,057.9	8,057.9	7.7
Allocated expenditure	253,433.06	264,301.77	264,301.77	(0.00)	66,406.67	
Interests	9,808.5	8,659.0				
Contingency	7,010.0	63.2				
Total expenditure	270,251.54	273,023.98				
Aggregate outturn (PI−1)						101.00
Composition (PI−2) variance						25.10
Contingency share of budget						0.02

Analysis for PI-1: Fiscal Year 2017/2018

Data for year = 2017/2018 (ETB, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Organ of State	3,402.3	2,695.3	3,447.1	−751.8	751.8	21.8
Justice and Security	7,248.1	6,559.2	7,343.5	−784.3	784.3	10.7
Defence	12,000.0	12,639.0	12,157.9	481.1	481.1	4.0
General Service	9,975.8	17,152.1	10,107.1	7,045.0	7,045.0	69.7
Agricultural and Rural Development	12,198.0	17,834.4	12,358.6	5,475.9	5,475.9	44.3
Water Resources and Energy	9,545.0	8,126.6	9,670.6	−1,544.0	1,544.0	16.0
Trade and Industry	1,188.4	907.3	1,204.1	−296.7	296.7	24.6
Mines	252.3	127.7	255.6	−128.0	128.0	50.1
Transport and Communication	1,961.0	872.8	1,986.8	−1,114.1	1,114.1	56.1
Urban Development and Construction	50,764.6	27,230.3	51,432.7	−24,202.3	24,202.3	47.1
Education	43,272.7	45,700.1	43,842.1	1,858.0	1,858.0	4.2
Culture and Sport	1,896.7	1,613.6	1,921.7	−308.1	308.1	16.0
Health	9,626.7	12,972.8	9,753.4	3,219.3	3,219.3	33.0
Labour and Social Affairs	101.9	101.1	103.3	−2.1	2.1	2.0
Prevention and Rehabilitation	683.1	15,286.7	692.1	14,594.6	14,594.6	2,108.9
Transfer	3,336.4	5,820.7	3,380.3	2,440.4	2,440.4	72.2
Others	5,622.0	263.3	5,696.0	−5,432.7	5,432.7	95.4
Subsidies to Region	124,260.4	125,345.6	125,895.7	−550.1	550.1	0.4
Allocated expenditure	297,335.66	301,248.60	301,248.60	0.0	70,228.5	
Interests	12,051.4	11,151.8				
Contingency	6,499.5	108.9				
Total expenditure	315,886.60	312,509.29				
Aggregate outturn (PI−1)						98.90
Composition (PI−2) variance						23.30
Contingency share of budget						0.03

Results Matrix

Year	for PI-1.1 Total expenditure outturn	for PI-2.1 Composition variance	for PI-2.3 Contingency share
2015/2016	105.7%	25.1%	
2016/2017	101.0%	25.1%	0.04%
2017/2018	98.9%	23.3%	

Analysis for PI-2: FY2015/2016

Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	22,048	24,095	23,579	516	516	2.2
Goods and Services	25,934	38,494	27,736	10,758	10,758	38.8
Fixed Assets and Construction	63,654	59,007	68,076	−9,069	9,069	13.3
Grants, Contributions, and Subsidies to Institutions and Enterprises	96,730	100,380	103,450	−3,070	3,070	3.0
Government Investment	0	5	0	5	5	1,458.4
Interest on debt	8,444	7,231	9,030	−1,799	1,799	19.9
Miscellaneous Payments	3,128	3,169	3,345	−176	176	5.3
Contingency	−2,760	−116	−2,952	2,836	2,836	−96.1
Total expenditure	217,178	232,265	232,265	0	28,229	
Composition variance						12.2

Analysis for PI-1: FY2016/2017

Data for year = 2016/2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	25,211	33,493	26,142	7,351	7,351	28.1
Goods and Services	32,442	33,698	33,640	58	58	0.2
Fixed Assets and Construction	82,655	62,339	85,706	−23,367	23,367	27.3
Grants, Contributions and Subsidies to Institutions and Enterprises	115,735	130,489	120,008	10,481	10,481	8.7
Government Investment	0	316	0	316	316	-
Interest on debt	9,808	8,659	10,171	−1,512	1,512	14.9
Miscellaneous Payments	4,400	4,029	4,562	−533	533	11.7
Contingency	−7,010	−63	−7,269	7,206	7,206	−99.1
Total expenditure	263,242	272,961	272,961	0	50,824	
Composition variance						18.6

Analysis for PI-1: FY2017/2018

Data for year = 2017/2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	33,984	36,996	34,315	2,681	2,681	7.8
Goods and Services	39,982	41,464	40,371	1,093	1,093	2.7
Fixed Assets and Construction	81,535	72,479	82,329	−9,850	9,850	12.0
Grants, Contributions and Subsidies to Institutions and Enterprises	142,604	143,630	143,993	−363	363	0.3
Interest on debt	5	80	5	75	75	1,372.6
Miscellaneous Payments	5,725	6,709	5,781	928	928	16.1
Contingency	−6,500	−109	−6,563	6,454	6,454	−98.3
Total expenditure	309,387	312,400	312,400	0	22,460	
Composition variance						7.2

Analysis of revenue outturn - PI-3: FY2015/2016

Data for year = 2015/2016 (ETB, millions)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Tax revenues						
Tax on Income, Profit and Capital Gain	40,688	35,677	41,878	−6,201	6,201	14.80
Domestic Indirect Taxes	41,212	30,168	42,418	−12,249	12,249	28.90
Tax on Foreign Trade	59,308	60,872	61,042	−170	170	0.30
Non-tax revenue						
Administrative Fees and Charges	1,367	1,922	1,407	514	514	36.50
Sales of Public Goods and Services	2,569	2,664	2,641	23	23	0.90
Government Investment Income	9,999	11,563	10,292	1,271	1,271	12.40
External assistance						
Multilateral Institutions	8,958	22,467	9,220	13,247	13,247	143.70
Bilateral Assistance	5,177	6,038	5,329	709	709	13.30
Capital revenue						
Sales of Movable and Immovable Properties	30	65	31	34	34	109.90
Privatization Proceeds	0	824	0	824	824	-
Other revenue						
Miscellaneous Revenue	1,828	3,880	1,882	1,999	1,999	106.20
Total revenue	171,136	176,140	176,140	0	37,241	
Overall variance						102.90
Composition variance						21.10

Analysis of revenue outturn - PI-3: FY2016/2017

Data for year = 2016/2017 (ETB, millions)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Tax revenues						
Tax on Income, Profit and Capital Gain	49,308	41,412	46,225	−4,813	4,813	10.40
Domestic Indirect Taxes	49,678	34,248	46,572	−12,324	12,324	26.50
Tax On Foreign Trade	71,681	**63,635**	67,200	−3,565	3,565	5.30
Non-tax revenue						
Administrative Fees and Charges	988	1,907	926	981	981	105.80
Sales of Public Goods and Services	3,065	2,845	2,873	−28	28	1.00
Government Investment Income	15,188	14,258	14,238	19	19	0.10
External assistance						
Multilateral Institutions	10,427	12,518	9,775	2,744	2,744	28.10
Bilateral Assistance	5,641	2,757	5,288	−2,531	2,531	47.90
Capital revenue						
Sales of Movable and Immovable Properties	70	47	66	−18	18	28.20
Privatization Proceeds	6,000	12,304	5,625	6,679	6,679	118.70
Other revenue						
Miscellaneous Revenue	2,070	14,798	1,941	12,857	12,857	662.40
Total revenue	214,116	200,729	200,729	0	46,559	
Overall variance						93.70
Composition variance						23.20

Analysis of revenue outturn - PI-3 FY2017/2018

Data for year = 2017/2018 (ETB, millions)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Tax revenues						
Tax on Income, Profit and Capital Gain	52,730	48,384	49,445	−1,062	1,062	2.10
Domestic Indirect Taxes	57,315	39,104	53,746	−14,641	14,641	27.20
Tax on Foreign Trade	86,338	77,837	80,960	−3,124	3,124	3.90
Non−tax revenue						
Administrative Fees and Charges	1,829	2,368	1,716	652	652	38.00
Sales of Public Goods and Services	3,379	2,295	3,169	−874	874	27.60
Government Investment Income	16,589	11,721	15,555	−3,835	3,835	24.70
External assistance						
Multilateral Institutions	11,813	21,102	11,078	10,025	10,025	90.50
Bilateral Assistance	5,325	**4,658**	4,993	−334	334	6.70
Capital revenue						
Sales of Movable and Immovable Properties	75	37	70	−33	33	47.40
Privatization Proceeds		647	0	647	647	-
Other revenue						
Miscellaneous Revenue	2,853	15,254	2,675	12,579	12,579	470.20
Total revenue	238,246	223,407	223,407	0	47,806	
Overall variance						93.80
Composition variance						21.40

Annex 6: Data used for scoring PI-1, PI-2, and PI-3 (2011 methodology)

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016 (ETB, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Organ of State	1,165	2,122	1,333	790	790	59.30
Justice and Security	5,450	5,169	6,234	−1,066	1,066	17.10
Defence	9,500	9,183	10,867	−1,684	1,684	15.50
General Service	4,307	5,644	4,926	717	717	14.60
Agricultural and Rural Development	9,126	15,156	10,438	4,718	4,718	45.20
Water Resources and Energy	6,772	8,985	7,745	1,239	1,239	16.00
Trade and Industry	796	650	910	−260	260	28.60
Mines	255	169	292	−123	123	42.00
Transport and Communication	1,197	717	1,369	−654	654	47.70
Urban Development and Construction	36,112	26,651	41,308	−14,656	14,657	35.50
Education	32,927	34,252	37,664	−3,412	3,412	9.10
Culture and Sport	1,097	943	1,254	−311	311	24.80
Health	6,375	8,476	7,292	1,184	1,184	16.20
Labor and Social Affairs	73	91	84	8	8	9.50
Prevention and Rehabilitation	38	18,673	44	18,629	18,629	42,386.60
Transfer	4,035	2,709	4,615	−1,906	1,906	41.30
Other transfer	0	654	0	655	655	—
Others	700	5	801	−796	796	99.40
Subsidies to Region	76,809	84,785	98,858	−3,072	3,072	12.60
Allocated expenditure	196,734	225,034	225,034	0	55,881	
Contingency	2,760	116				
Total expenditure	199,494	225,150				
Aggregate outturn (PI−1)						112.90
Composition (PI−2) variance						24.80
Contingency share of budget						0.06

Data for year = 2016/2017 (ETB, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Organ of State	1,726	2,815	1,890	925	925	48.90
Justice and Security	5,456	5,573	5,973	−400	400	6.70
Defence	11,000	11,318	12,042	−723	723	6.00
General Service	6,183	7,375	6,769	606	606	9.00
Agricultural and Rural Development	9,627	20,158	10,539	9,619	9,619	91.30
Water Resources and Energy	8,800	7,905	9,633	−1,728	1,728	17.90
Trade and Industry	965	964	1,057	−93	93	8.80
Mines	318	228	348	−120	120	34.40
Transport and Communication	1,499	847	1,641	−793	793	48.40
Urban Development and Construction	49,684	27,670	54,390	−26,720	26,720	49.10
Education	39,779	42,472	43,546	−1,075	1,075	2.50
Culture and Sport	1,292	1,022	1,414	−393	393	27.80
Health	8,189	7,673	8,964	−1,291	1,291	14.40
Labour and Social Affairs	82	114	90	24	24	27.10
Prevention and Rehabilitation	127	11,496	139	11,357	11,357	8,175.40
Transfer	3,035	3,953	3,322	630	630	19.00
Others	800	506	876	−370	370	42.20
Subsidies to Region	87,871	108,213	96,195	12,018	12,018	12.50
Miscellaneous	5,000	4,000	5,474	−1,474	1,474	26.90
Allocated expenditure	241,433	264,302	264,302	0	70,359	
Contingency	7,010	63				
Total expenditure	248,443	264,365				
Aggregate outturn (PI−1)						106.40
Composition (PI−2) variance						26.60
Contingency share of budget						0.02

Data for year = 2017/2018 (ETB, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Organ of State	3,402	2,695	3,428	−733	733	21.40
Justice and Security	7,248	6,559	7,303	−744	744	10.20
Defence	12,000	12,639	12,091	548	548	4.50
General Service	9,976	17,137	10,051	7,085	7,085	70.50
Agricultural and Rural Development	12,198	17,834	12,291	5,544	5,544	45.10
Water Resources & Energy	9,545	8,127	9,617	−1,491	1,491	15.50
Trade and Industry	1,189	907	1,197	−290	290	24.20
Mines	252	128	254	−127	127	49.80
Transport and Communication	1,961	873	1,976	−1,103	1,103	55.80
Urban Development and Construction	50,765	27,230	51,150	−23,920	23,920	46.80
Education	43,273	45,701	43,601	2,100	2,100	4.80
Culture and Sport	1,897	1,614	1,911	−298	298	15.60
Health	9,627	13,267	9,700	3,568	3,568	36.80
Labor and Social Affairs	102	101	103	−1	1	1.50
Prevention and Rehabilitation	683	15,287	688	14,599	14,599	2,121.10
Transfer	3,336	2,901	3,362	−461	461	13.70
others	622	260	627	−366	366	58.50
Subsidies to Region	117,260	119,275	118,150	1,125	1,125	1.00
Miscellaneous	5,000	3	5,038	−5,035	5,035	99.90
Allocated expenditure	290,336	292,538	292,538	0	69,138	
Contingency	6,500	109				
Total expenditure	296,835	292,647				
Aggregate outturn (PI−1)						98.60
Composition (PI−2) variance						23.60
Contingency share of budget						0.04

Results Matrix

Year	for PI-1 Total exp. outturn	for PI-2.1 Composition variance	for PI-2.3 Contingency share
2015/2016	112.9%	24.8%	
2016/2017	106.4%	26.6%	0.04%
2017/2018	98.6%	23.6%	

Annex 7: Service delivery pilot

1. Context for the assessment

1. The federal government is dedicating a high share of its budget to pro-poor programs and investments. This is demonstrated by the reorientation of expenditure from recurrent to capital and significant decentralization of resources from the federal government to regions. The major expenditure of the federal government is the subsidies to the regions. The government focuses on spending in pro-poor sectors, particularly in health and social and investment. Education and urban development are supported by various donor-funded programs. The health and education sectors are of particular interest in this assessment because they reflect the actual benefit for the society from the allocation and management of public funds. Table A7.1 shows the selected PIs for service delivery.

Table A7.1: Service delivery indicators

Ethiopia Federal Government PEFA Assessment 2018 - Module for service delivery in health and education
Indicator
HLG - Transfer from higher level government
Pillar I. Budget reliability
PI-1 Aggregate expenditure outturn
PI-2 Expenditure composition outturn
Pillar II. Transparency of public finances
PI-6 Central government operations outside financial reports
PI-7 Transfers to subnational governments
PI-8 Performance information for service delivery
PI-9 Public access to fiscal information
Pillar III. Management of assets and liabilities
PI-11 Public investment management
PI-12.2 Public asset management
Pillar IV. Policy-based fiscal strategy and budgeting
PI-16.2 and PI-16.3 Medium-term perspective in expenditure budgeting
PI-I7 Budget preparation process
Pillar V. Predictability and control in budget execution
PI-21.3 Predictability of in-year resource allocation
PI-22. Expenditure arrears
PI-23.4 Payroll controls
PI-24.1 and PI-24.2 Procurement
PI-25 Internal controls on non-salary expenditure
PI-26 Internal audit
Pillar VI. Accounting and reporting
PI-29 Annual financial reports
Pillar VII. External scrutiny and audit
PI-30 External audit

2. Institutional Arrangements

2.1 Health

2. The Ethiopian Government Health System is organized in a three-tier health care delivery system: level one is a woreda/district health system comprising a primary hospital (to cover 60,000–100,000 people), health centers (15,000–25,000 population), and their satellite health posts (3,000–5,000 population) connected to each other by a referral system. The primary hospital, health center, and health posts form a Primary Health Care Unit. Level two is a General Hospital covering a population of 1–1.5 million people, and level three is a Specialized Hospital covering a population of 3.5–5 million people.

3. The devolution of power to regional governments has resulted in largely shifting the decision making for public service delivery from the center to the authority of the regions and down to the district level. Offices at different levels from the Federal MoH to regional health bureaus (RHBs) and woreda health offices share in decision-making processes, powers, duties, and responsibilities. The ministry and the RHBs focus more on policy matters and technical support while woreda health offices manage and coordinate the operation of the district health system under their jurisdiction.

4. The health sector is basically guided by a series of Health Sector Transformation Plans; the current plan runs from 2015/2016 to 2019/2020. The plan is cascaded down to the regions and woredas.

5. The health sector in Ethiopia is financed basically by four main sources: the government, bilateral and multilateral donors, nongovernmental organizations, and private contributions.

6. The federal government allocates block grant to regions, which they appropriate based on their priority. The allocation to the health sector is based on the regional health sector transformation plan, which is in line with the federal plan. The federal government’s budget is allocated to the MoH and institutes and hospital that are accountable to the federal government.

7. Funds from development partners flow in two different channels to the government: the first is the SDG Performance Fund, which is a pooled funding mechanism managed by the MoH using the Government of Ethiopia’s procedures, which provides specific grants for public goods and capacity-building activities within the framework of the health system. The second is directly to the MoH as a program/project fund for specific purposes agreed between the Federal MoH and donors.

8. Pharmaceuticals to both public and private health institutions are mainly supplied by the Ethiopian Pharmaceutical Supply Agency (EPSA), formerly known as Pharmaceuticals Fund and Supply Agency (PFSA). Other private suppliers and drug manufactures also supply pharmaceuticals to public and private medical institutions. EPSA is accountable to the MoH and is established with the objective of supplying quality-assured essential pharmaceuticals at affordable prices to governmental and private institutions throughout the country. The head office and main warehouse are in Addis Ababa and it works with a network of 19 branches throughout the country. EPSA supplies pharmaceuticals in two pipelines: program and non-program. The program pipeline is where EPSA supplies to the MoH using the funds granted by different donors such as Global Fund, Gavi, and the SDG program. These drugs are distributed free of charge. In the non-program pipeline, EPSA supplies to different facilities on a commercial basis. Currently, a total of 1,373 commodities are being managed by EPSA, but data are not available regarding the total commodities required/consumed by the country.

Table A7.2: Responsibilities in Service Delivery, Health

No.	Entity	Responsibility
1	MoH	Responsible for development of national sector strategy, constructing and managing referral hospitals and research and development centers, setting health standards, certifying public health professionals
2	EPSA, formerly known as PFSA	Supply medical supplies to health facilities from its distribution hubs. Supply pharmaceutical products to health facilities (including health centers and hospitals). It provides on commercial basis other than those projects financed pharmaceutical products (mainly donor funded). Health centers and hospitals buy pharmaceutical products from other private suppliers when such supplies are not available at the PFSA.
3	Referral hospitals	Used as referral hospitals for other medical institutions such as regional hospital, health stations, and private medical institutions. They are responsible for • Allocating their budget as per the ceiling they receive from the MoF, • Procurement of all materials except those handled by PPPDS such as vehicles, • Planning and implementing capital projects, • Preparing and submitting budget implementation reports directly to the MoH, and • Reporting their activities to the MoH.
4	Federal universities	Manage hospitals that are under their medical faculties. They are responsible for • Requesting budget requirements from the hospitals; • Consolidating and submitting the budget request to the MoF; • Transferring cash to the hospitals; and • Collecting reports from the hospitals, consolidating, and submitting to the MoF.
5	EFDA (Ethiopian Food and Drug Administration) formerly known as FMHACA	A national regulatory body under the MoH which is responsible for ensuring quality, safety, and/or efficacy of medicines, food, cosmetics, and medical devices. It approves all imports and production of pharmaceuticals and medical devices.
6	EHIA (Ethiopian Health Insurance Agency)	A federal agency responsible for implementation of Community Based Health Insurance (CBHI) and Social Health Insurance (SHI) throughout the country. CBHI is being implemented in more than 200 woredas in different regions and preparations are under way to implement SHI.
7	MoF	Responsible for the overall budgeting, Treasury management, accounting, and reporting of the federal government. It directly disburses approved budget based on cash flow forecast and request to the MoH, federal hospitals, universities, and other agencies.

Note: FMHACA = Food, Medicine and Health Care Administration and Control Authority of Ethiopia.

9. The budget allocated to the health sector for the past three years remains constant between 3 percent and 4 percent of the total federal government budget. However, the actual expenditure outturn varies significantly between years, where it was above budget in 2015/2016 and 2017/2018, with 133 percent and 134.8 percent respectively, while it was below budget in 2016/2017 with 93.7 percent. The budget allocated to the health sector has been increasing in absolute terms the last three years in proportion to the increase in federal government budget, by 28 percent and 18 percent in 2016/2017 and 2017/2018, respectively. Table A7.3 shows the federal government budget and the budget allocated to health.

Figure A7.1: Federal Government of Ethiopia - Health service delivery

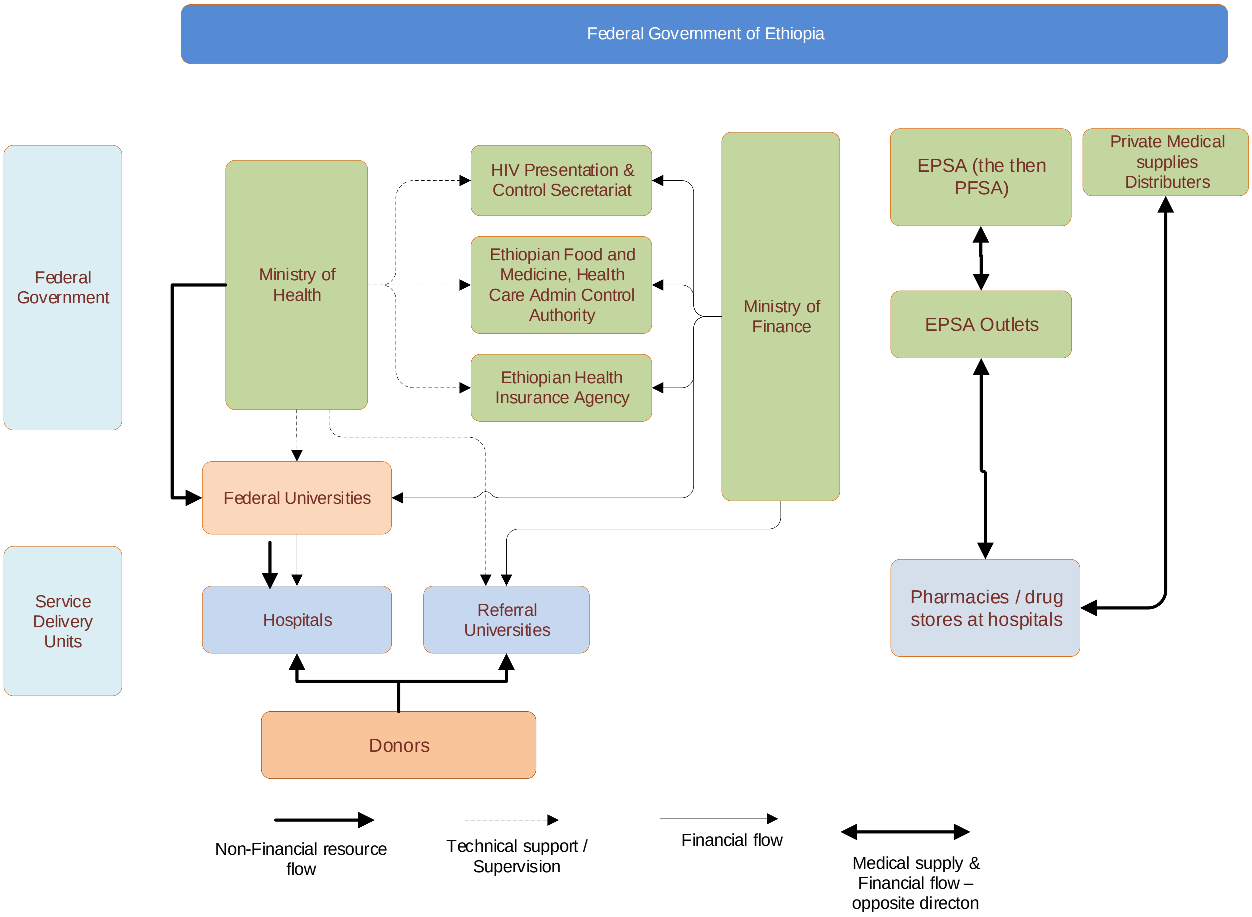

Table A7.3: Total federal government budget and share of health sector (ETB, billions)

	2017/2018				2016/2017				2015/2016			
	Budget	Actual	Share of health %	Actual outturn %	Budget	Actual	Share of health %	Actual outturn %	Budget	Actual	Share of health %	Actual outturn %
Federal government	320.80	317.18	—	98.9	274.37	276.29	—	100.7	223.40	235.95	—	105.6
Health	9.63	12.97	4	134.8	8.19	7.67	3	93.7	6.38	8.48	4	133.0

Source: MoF Accounts Directorate.

2.2 Education

10. The education structure of Ethiopia is composed of 3 years of pre-primary education, 8 years of primary education (grades 5–8), 2 years of general secondary education (grade 9–10), 2 years of preparatory secondary education, and higher education (college or university). Higher education is the responsibility of the federal government, though regions have the right to establish regional colleges and universities. Primary and secondary education are the responsibility of regional governments.

11. The education sector is guided by a series of Education Sector Development Programs (ESDPs); the current plan runs from 2015/2016 to 2019/2020. The plan is cascaded down to regions and woredas.

12. The education sector in Ethiopia is financed basically by four main sources: the government, bilateral and multilateral donors, nongovernmental organizations, and private contributions.

13. The federal government allocates block grant to regions, which regions appropriate based on their priority. The allocation to education sectors is based on the regional education sector development program which is in line with the federal plan. The federal government's budget is allocated to the MoF, Ministry of Science and Higher Education (MoSHE), universities, and other agencies.

14. GEQIP-E (General Education Quality Improvement Program for Equity) has been the main channel of donor support for general education since 2002. It has been providing non-salary recurrent spending through the provision of textbooks for grades 1–12, school grants, and support for teachers' development and training. The donors are the World Bank, the United Kingdom, Norway, Finland, the United States, Irish Aid and UNICEF among others.

Table A7.4: Responsibilities in service delivery - Education

<table>
<tr><th>No.</th><th>Entity</th><th>Responsibility</th></tr>
<tr><td>1</td><td>MoE</td><td>Responsible for setting out national policies, frameworks, and guidelines, as well as higher education and high-level technical and vocational education and training (TVET). The powers include, among others,
• Setting education and training standards;
• Expanding and leading higher education;
• Ensuring the quality of education at all levels; and
• Developing national TVET strategies</td></tr>
<tr><td>2</td><td>Ministry of Science and Higher Education</td><td>Responsible for leading the development of science, higher education, and TVET in Ethiopia</td></tr>
<tr><td>5</td><td>MoF</td><td>Responsible for the overall budgeting, Treasury management, accounting, and reporting of the federal government. It directly disburses approved budget based on cash flow forecast and request to the MoE, MoSHE, universities, and other agencies.</td></tr>
<tr><td>8</td><td>Universities</td><td>Provide service delivery. They are responsible for
• Allocating their budget as per the ceiling they receive from the MoF;
• Procuring all materials;
• Planning and implementing capital projects;
• Preparing and submitting budget implementation reports directly to the MoF; and
• Reporting on their activities to the MoE and MoSHE</td></tr>
</table>

15. The budget allocated to the education sector has remained constant in the last three years, between 14 percent and 15 percent of the total federal government budget. The budget has been increasing in the last three years in proportion to the increase in federal government budget, by 21 percent and 9 percent in 2016/2017 and 2017/2018, respectively. In all the three years, the actual expenditure outturn of the sectors was above the budget, between 4 percent and 7 percent. Table A7.5 shows the education and federal government budget for the past three years.

Figure A7.2: Federal Government of Ethiopia - Education service delivery

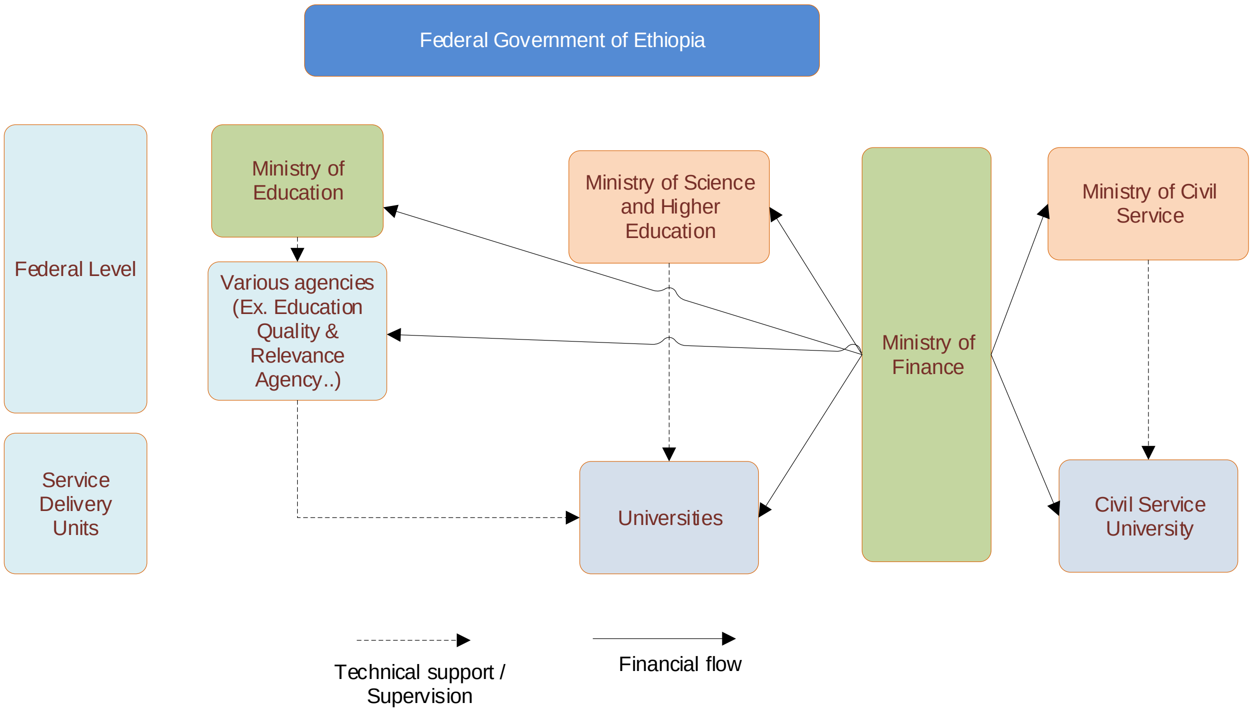

Table A7.5: Total federal government budget and share of education sector (ETB, billions)

	2017/2018				2016/2017				2015/2016			
	Budget	Actual	Share of health %	Actual outturn %	Budget	Actual	Share of health %	Actual outturn %	Budget	Actual	Share of health	Actual outturn %
Federal government	320.80	317.18	—	98.9	274.37	276.29	—	100.7	223.40	235.95	—	105.6
Education	43.27	45.70	14	105.6	39.78	42.47	15	106.8	32.93	34.25	15	104.0

Source: MoF Accounts Directorate.

16. As shown in Table A7.6, a significant portion of the education sector budget was allocated to the service delivery units, that is, universities. In all the three years under review, 87 percent of the budget was allocated to universities.

Table A7.6: Share of the budget on the education sector going to service delivery units (universities) (ETB, billions)

	2017/2018		2016/2017		2015/2016	
	Budget	Actual	Budget	Actual	Budget	Actual
Total Education Budget	43.27	45.70	39.78	42.47	32.93	34.25
MoE and other offices	5.50	8.30	5.30	6.50	4.20	4.50
Universities	37.77	37.40	34.48	35.97	28.73	29.75
% allocated to universities	87	82	87	85	87	87

Source: MoF Accounts Directorate.

3. Objectives and scope

17. The service delivery assessment is focused on the health and education sectors in selected areas: Federal Government of Ethiopia, Addis Ababa City, Oromia, and Somali. The pilot assessments review the flow, the use, and the efficiency of the use of funds in the sectors and between the levels of government to identify bottlenecks and to shed light on the efficiency of the funding allocation process. This assessment is the one focused on federal government.

18. The federal government has 45 universities and one technical training institute. For this assessment, one pharmaceutical agency (EPSA), two universities, and two hospitals were visited. The sample expenditure by BI visited is shown in Table A7.8.

19. The service delivery PEFA assessment focuses on the financial operations of the education and health sector and includes budgetary units and EBUs of the education sector and related oversight and accountability institutions.

20. The actual expenditure during 2017/2018 for the education and health sector was ETB 45.7 billion and ETB 12.97 billion, respectively. The expenditure for education and health represents 14 percent and 4 percent of the total federal government expenditure in 2017/2018. Table A7.7 shows expenditures of the two sectors by capital and recurrent expenditure in 2017/2018.

Table A7.7: Capital and recurrent expenditures of health and education sectors, federal government (ETB, billions)

	Sector	Total expenditure	Capital expenditure	Share of capital budget (%)	Recurrent	
					Salaries and benefits	Operating expenses
1	Education	45.70	22.72	50	11.51	11.47
2	Health	12.97	11.21	86	0.93	0.84

Source: MoF Accounts Directorate.

21. The following institutions were visited:

- Education
  - Addis Ababa University (AAU)
  - Addis Ababa Science and Technology University
- Health
  - Saint Paul's Hospital
  - Black Lion Hospital
  - EPSA

Table A7.8: Actual expenditure of visited universities and hospitals

	Name of institution	Total expenditure (ETB, billions)		
		2017/2018	2016/2017	2015/2016
1	AAU	2.37	2.43	2.26
2	Addis Ababa Science and Technology University	0.51	0.86	0.44
3	St. Paul's Millennium Medical College and Hospital	1.34	1.14	0.83
4	Tikur Anbessa Hospital			

Source: Visited hospitals and universities.

4. Methodology

22. The approach employed for this service delivery module has been requested, discussed, and agreed with the Task Team Leader, Rafika Chaouali, Lead Governance Specialist, Public Financial Management, and Ana Bellver, Senior Public Sector and Governance Specialist, the World Bank. A team of independent consultants (the same hired to carry out the regular PEFA assessment)–Elena Morachiello (Lead Consultant), Samuel Gebremedhin, Elisaveta Teneva, Charles Hegbor, and Getnet Haile—carried out the fieldwork and prepared this report. Samuel Gebremedhin carried out preliminary interviews and initial data collection. The team of independent consultants also developed the theoretical framework for the service delivery module under the guidance of Ana Bellver, with feedback from Rafika Chaouali and Meron Tadesse. The PEFA framework has been applied to review the PFM processes and their implications on service delivery units in the health and education sectors at the federal government level. This involved visits, interviews, and documents' review in service delivery units in both sectors. This service delivery PEFA assessment is focused on the financial operations with implication to services in the health and education sectors' PFM-related areas. The assessment presents the facts relevant to service delivery units by PEFA PI and draws conclusions by PEFA pillar. It should be noted that the sample taken is too small to provide overall conclusion for the sectors, however is able to provide insight into the situation at the service delivery unit level.

23. It should be noted, however, that both the 2010 and 2015 PEFA assessments considered service delivery at the federal level as not applicable (see PI-23 2011 model and PI-8.3 2016 model; both rated NA). For the PEFA, service delivery is primary service delivery, which in Ethiopia is the remit of city and regional governments. The approach decided was thus to select a few tertiary service delivery institutions and EPSA, as it is the primary source of medical supplies to hospitals and clinics.

24. Table A7.9 shows the PIs covered in the assessment.

Table A7.9: PEFA PIs covered by the service delivery module

Pillars	Included	Not included
HLG		
I. Budget reliability	PI-1 and PI-2	PI-3
II. Transparency of public finances	PI-6, PI-7, PI-8, PI-9	PI-5
III. Management of assets and liabilities	PI-11 and PI-12.2	PI-10, PI-13
IV. Policy-based fiscal strategy and budgeting	PI-16.2, PI-16.3, and PI-17	PI-14, PI-15, and PI-18
V. Predictability and control in budget execution	PI-21.3, PI-22, PI-23, PI-24, PI-25, and PI-26	PI-19, PI-20
VI. Accounting and reporting	PI-29	—
VII. External scrutiny and audit	PI-30	PI-31

5. Service Delivery assessment

Pillar I: Budget reliability

PI-1 Aggregate expenditure outturn

Health

25. As shown in Table A7.10, the actual expenditure outturn of the health sector varies from year to year. It was over budget in 2015/2016 and 2017/2018, with 133 percent and 134.8 percent outturn, while it was under budget in 2016/2017 with 93.7 percent outturn. The contributing factors to these deviations are the unrealistic budgeting processes necessitated for supplementary budget during the budget implementation phase, especially for capital investment projects.

Table A7.10: Aggregate expenditure outturn of health sector (ETB)

Fiscal year	Original budget	Actual expenditure	Over/(Under) budget	Aggregate expenditure outturn % against the original budget
2017/2018	9,626,722,940	12,972,757,086	3,346,034,146	*134.8*
2016/2017	8,188,564,800	7,672,824,885	(515,739,915)	*93.7*
2015/2016	6,375,411,810	8,476,365,125	2,100,953,315	*133.0*

Source: MoF Accounts Directorate.

26. The aggregate expenditure outturn of the visited hospitals also shows similar trend of the health sector. It was above budget for all the three years under assessment in St. Paul's Millennium Medical College and Hospital where the biggest variance occurred in 2015/2016 where the outturn was 155.3 percent. This is mainly the result of capital expenditure being 70 percent above the budget for the year. The addition was covered by supplementary budget. The aggregate expenditure outturn for the last three years is shown in Table A7.11.

Table A7.11: Aggregate expenditure outturn of St. Paul's Millennium Medical College and Hospital (ETB)

Fiscal year	Original budget	Actual expenditure	Over/(Under) budget	Aggregate expenditure outturn % against the original budget
2017/2018	1,205,761,540	1,337,524,916.57	131,763,376.57	*110.9*
2016/2017	964,602,800	1,135,994,870.51	171,392,070.51	*117.8*
2015/2016	531,367,000	825,172,218.79	293,805,218.79	*155.3*

Source: St. Paul's Millennium Medical College and Hospital Accounts Directorate.

Education

27. The education sector budget is more reliable as exhibited in Table A7.12, where the aggregate expenditure outturn deviated by a maximum of 7 percent in the last three years. The outturn was 104 percent, 106.8 percent and 105.6 percent in 2015/2016, 2016/2017, and 2017/2018, respectively.

Table A7.12: Actual aggregate expenditure outturn in education sector (ETB)

Fiscal year	Original budget	Actual Expenditure	Over/(Under) budget	Aggregate expenditure outturn % against the original budget
2017/2018	43,272,667,372	45,700,101,579.35	*2,427,434,207.35*	*105.6*
2016/2017	39,778,532,560	42,471,774,780.59	*2,693,242,220.59*	*106.8*
2015/2016	32,927,483,990	34,252,195,048.44	*1,324,711,058.44*	*104*

Source: MoF Accounts Directorate.

28. The aggregate budget outturn against original budget varies significantly in the visited universities. AAU's actual expenditure outturn was above budget, as shown in Table A7.13, for the last three years. Different factors contribute for this, such as high inflation in 2015/2016 and unrealistic budgeting processes resulting in requesting of additional budget to cover the expenses of planned activities. Table A7.14 shows that the outturn of Addis Ababa Science and Technology University was significantly lower than the budget in the last three years. This is mainly due to underperformance in capital budget, where many capital projects are not implemented as planned. This in turn had a negative impact on the general operation of the university and resulted in non-implementation of various planned activities. The university is relatively new and established seven years ago and hence, this low implementation of planned activities is affecting the service delivery.

Table A7.13: Aggregate budget outturn for AAU (ETB)

Fiscal year	Original budget	Actual expenditure	Over/(Under) budget	Aggregate expenditure outturn % against the original budget
2017/2018	2,212,950,600	2,368,289,804.35	*155,339,204.35*	*107.0*
2016/2017	2,100,694,300	2,426,100,937.01	*325,406,637.01*	*115.5*
2015/2016	1,848,029,400	2,261,056,507.36	*413,027,107.36*	*122.3*

Source: AAU Accounts Directorate.

Table A7.14: Aggregate budget outturn for Addis Ababa Science and Technology University (ETB)

Fiscal year	Original budget	Actual expenditure	Over/(Under) budget	Aggregate expenditure outturn % against the original budget
2017/2018	1,169,424,510	509,403,696.55	*−660,020,813.45*	*43.6*
2016/2017	1,143,127,780	860,391,666.47	*−282,736,113.53*	*75.3*
2015/2016	880,895,440	436,057,699.54	*−444,837,740.46*	*49.5*

Source: Addis Ababa Science and Technology University Accounts Directorate.

PI-2 Expenditure composition outturn

Health

PI-2.1 Expenditure composition outturn by function

29. Variance in expenditure composition outturn by functional classification is high in the health sector. As indicated in Table A7.15, the composition variance was 81.4 percent, 28.0 percent, and 44.5 percent in 2015/2016, 2016/2017, and 2017/2018, respectively. The Financial Administration Proclamation No. 648/2009 clearly states that budget transfers from capital to recurrent budget are not allowed and the MoF is empowered to approve all transfers; however, it can delegate public bodies to make transfers. But there is no restriction on the level of adjustments to be made. Budget adjustments within the ministries are done by the ministry's management and this, coupled with having no limit on the transfer amounts/percentage, makes management reluctant to properly prepare the original budget. This is also exhibited in the health and educational institutions visited.

30. The variance in expenditure composition outturn of one of the visited hospitals, St. Paul's Millennium Medical College and Hospital, was better than the sector, as shown in Table A7.16, where it was below 10 percent in 2015/2016 and 2016/2017 and 15 percent in 2017/2018.

PI-2.2 Expenditure composition outturn by economic type

31. Variance in expenditure composition outturn by economic type is also high as is the case with the functional classification. Table A7.15 shows that the variance was 66.6 percent, 32.1 percent, and 43.1 percent in 2015/2016, 2016/2017, and 2017/2018, respectively. The same reason of the loose restriction on transfers contributed for such high variance. In addition to this, budget reallocation from goods and services to capital projects caused the variance to be high.

32. St. Paul's Millennium Medical College and Hospital's variance in expenditure composition by economic type is better than the sector in which it has been below 10 percent in 2015/2016 and 2017/2018, while it increased to 23.5 percent in 2016/2017. This is mainly caused by unforeseen expenditure for building of the Maternal and Children Hospital during the year.

2.3 Expenditure from contingency reserves

33. Contingency budget is proclaimed at the MoF and not at the sectoral level; hence, this indicator is rated NA.

Table A7.15: Expenditure composition outturn

Fiscal year	PI-2.1 Expenditure composition outturn by function	PI-2.2 Expenditure composition outturn by economic type
2017/2018	44.5%	43.1%
2016/2017	28.0%	32.1%
2015/2016	81.4%	66.6%

Source: MoF Accounts Directorate.

Table A7.16: Expenditure composition outturn at St. Paul's Millennium Medical College and Hospital

Fiscal year	PI-2.1 Expenditure composition outturn by function	PI-2.2 Expenditure composition outturn by economic type
2017/2018	14.6%	7.3%
2016/2017	9.5%	23.5%
2015/2016	9.4%	9.6%

Source: St. Paul's Millennium Medical College and Hospital Accounts Directorate.

Education

PI-2.1 Expenditure composition outturn by function

34. The expenditure composition by function is more credible in the education sector level where the variance was 3 percent, 8 percent, and 9.2 percent in 2015/2016, 2016/2017, and 2017/2018, respectively, as shown in Table A7.17. However, the performance of the visited universities was lower. Table A7.18 shows that AAU's composition variance was good in 2015/2016 at 5.5 percent but becomes high in the subsequent years, reaching 64.6 percent in 2017/2018. Addis Ababa Science and Technology University's variance was between 13 percent and 35 percent in the three years under assessment. Such large reallocations could negatively affect service delivery in the universities because originally allocated resources could be reassigned to other functions.

PI-2.2 Expenditure composition outturn by economic type

35. The variance in expenditure composition outturn by economic type of the education sector stood at 6.1 percent, 16.4 percent, and 12.4 percent in 2015/2016, 2016/2017, and 2017/2018, respectively. However, the composition variance at the visited universities varies significantly between years as shown in Tables A7.18 and A7.19. AAU's variance was between 7.5 percent and 25.1 percent, which Addis Ababa Science and Technology University's variance was below 1 percent in 2016/2017 but 29.8 percent in 2015/2016 and 71.2 percent in 2017/2018.

PI-2.3 Expenditure from contingency reserves

36. Contingency budget is proclaimed at the MoF and not at the sectoral level; hence, this indicator is not applicable.

Table A7.17: Expenditure composition outturn

Fiscal year	PI-2.1 Expenditure composition outturn by function	PI-2.2 Expenditure composition outturn by economic type
2017/2018	9.2%	12.4%
2016/2017	8.0%	16.4%
2015/2016	3.0%	6.1%

Source: MoF Accounts Directorate.

Table A7.18: Expenditure composition outturn of AAU

Fiscal year	PI-2.1 Expenditure composition outturn by function	PI-2.2 Expenditure composition outturn by economic type
2017/2018	64.6%	25.1%
2016/2017	22.1%	21.3%
2015/2016	5.5%	7.5%

Source: AAU Accounts Directorate.

Table A7.19: Expenditure composition outturn of Addis Ababa Science and Technology University

Fiscal year	PI-2.1 Expenditure composition outturn by function	PI-2.2 Expenditure composition outturn by economic type
2017/2018	35.1%	71.2%
2016/2017	13.4%	0.8%
2015/2016	19.8%	29.8%

Source: Addis Ababa Science and Technology University Accounts Directorate.

Pillar II: Transparency of public finances

PI-6 Central government operations outside financial reports

PI-6.1 Expenditure outside financial reports

37. For the education and the health sectors, on the basis of the sample selected, there is no extra-budgetary expenditure. The institutions send information on expenditure incurred through internally generated revenue to the MoF. The institutions have used Excel to prepare the reports for EFY 2010 but have started using IFMIS since April 2019. Their expenditure is captured in the federal government budget and accounts. Regarding EPSA, which has a different status as it is public enterprise (see PI-10.1 in the main report), expenditure funded by own revenue is also reported, but not in the federal

government accounts but in the EPSA annual audited accounts. The sources of EPSA expenditure are profit from sales of pharmaceuticals, service charges from procurement services, logistic services and donor support.

PI-6.2 Revenue outside financial reports

38. For the education and health sectors, based on the sample selected, there is no extra-budgetary revenue. The institutions have internally generated revenue. For AAU, 30 percent of the internally generated revenue is deposited to the MoF Treasury, whereas 70 percent is retained by the university. The retained revenue is, however, also included in the budget and in the federal government financial statements. For the other university, all revenue is deposited to the MoF Treasury and thus reported. St. Paul's Hospital Millennium Medical College and Black Lion Hospital also have internally generated revenue that is reported in the federal government budget and accounts. For the two hospitals, internally generated revenue arises from medical services and the sale of pharmaceuticals. At St Paul's Hospital, there is also a wing in which doctors provide medical services on a private basis, and 15 percent of that revenue belongs to the hospital and does not count as federal government expenditure. Federal government revenue is included in the budget and in the financial statements.

6.3 Financial reports of extra-budgetary units

39. There are no EBUs in the health and education sectors.

PI-7 Transfers to subnational governments (in this context, to federal tertiary budget units that deliver some service)

PI-7.1 System for allocating transfers

40. The system of allocation transfers within the context of federal tertiary BIs is not applicable, as these are not autonomous governments with political and financial authority.

PI-7.2 Timeliness of information on the transfers

41. Addis Ababa Science and Technology University, St Paul's Hospital Millennium Medical College and AAU and its affiliate College of Health Sciences (CHS is not a BI, it is under AAU) are BIs, like any federal government line ministry that receives annual budget support for its operations. Information on transfers to these institutions is the same as that pertaining to federal government BIs and regional government that receive general-purpose grants. Just as the MoF issues BCCs to federal line ministries, Addis Ababa Science and Technology University, St Paul's Hospital Millennium Medical College, and AAU also receive BCCs within the same period. For the fiscal year 2017/2018 ending June 2018, these three institutions received reliable information from the MoF referencing their annual budget transfers on time (April 20, 2017) for the preparation of their 2017/2018 annual budget; this allowed at least two months before the start of the new fiscal year for budget preparation.

42. In terms of actual transfers of funds from the MoF, after the federal annual budget is approved by the legislature, all three institutions confirmed that there are no delays with regard to recurrent budget; actual transfers are timely and allow critical service to be rendered to the public. That said, St Paul's Hospital indicated delays in the release of funds for capital projects in EC 2010, specifically on the construction of a cancer center. Out of a total cost of ETB 300 million, ETB 150 million (50 percent) was approved and released by the MoF. This therefore has affected the speedy completion of the project, which is badly needed for tertiary service delivery for cancer patients.

PI-8 Performance information for service delivery

PI-8.1 Performance plans for service delivery

43. The two BIs visited in the health sector have developed a medium-term strategic plan for 2018/2019 to 2022/2023. The strategies include key performance indicators (KPIs) and planned outputs and outcomes. An annual plan related to the strategy is also prepared, and it includes KPIs and planned outputs and outcomes. The following are the service delivery objectives:

- Increase customer and stakeholder satisfaction
- Increase community engagement
- Increase financial, material, and human resources
- Increase utilization of resources
- Increase optimization of resources
- Strengthen data usage and communication
- Improve automation and integration of business processes
- Increase diversification and specialization of services and programs
- Improve quality of education, research, and services
- Strengthen internationalization, links, and partnerships
- Improve knowledge and skills of employees
- Improve positive working environment and professional etiquette
- Strengthen staff retention and motivation mechanism
- Enhance and standardise teaching, research, service infrastructure, and facilities

44. Each of the above key service delivery objectives have corresponding KPIs with a five-year achievement target. Table A7.20 outlines two main service delivery KPIs.

Table A7.20: Selected service delivery KPIs in the health sector

Key service delivery objective	Specific objective	Measurement framework	Baseline	Year 1 EC 2011	Year 2 EC 2012	Year 3 EC 2013	Year 4 EC 2014	Year 5 EC 2015
Customer and stakeholder satisfaction	Increase customer and stakeholder satisfaction	Percentage of satisfaction	80%	80%	90%	90%	95%	100%
		Percentage of customer complaints solved	62%	75%	80%	80%	85%	90%
	Increase customer engagement	Percentage of customer engagement in decision making	50%	50%	75%	80%	90%	90%

Key service delivery objective	Specific objective	Measurement framework	Baseline	Year 1 EC 2011	Year 2 EC 2012	Year 3 EC 2013	Year 4 EC 2014	Year 5 EC 2015
Improve quality of education, research and services	Increase quality education, research and services	Percentage of service units audited and appraised	No baseline	50%	100%	100%	100%	100%
		Percentage of service units that meet standards	No baseline	60%	75%	100%	100%	100%

Sources: Medium-term strategies for St. Paul's Hospital Millennium Medical College and Black Lion Hospital.

45. The education sector BIs also prepare a medium-term strategy and a related annual plan every year. The strategies include four strategic themes and each theme has a result/outcome indicator:

1. Excellence in learning-teaching
2. Excellence in research, technology transfer, and knowledge management
3. Excellence in community service, strategic partnership, and resource generation and management
4. Excellence in good governance and diversity management

46. The strategies have four perspectives, where "Perspectives are the lenses and scales through which the University views its plans and measures its performances." There are 13 objectives under the four perspectives:

1. Customer/Stakeholder
2. Budget/Finance
3. Internal Business Process
4. Learning and Growth/Capacity Building

47. The information on KPIs and planned outcomes is, however, not published for either sector.

PI-8.2 Performance achieved for service delivery

48. Annual performance reports are prepared at the level of the health sector. These include information on achieved outcomes. The same is true for the education sector. Neither sector publishes the evaluations however.

PI-8.3 Resources received by service delivery units

49. Though there are no primary service delivery units at the federal government level, as per clarification 8:2 (see Field-Guide page 60), "service delivery unit is defined as the unit that is delivering frontline services directly to citizens and businesses such as schools, health care clinics and hospitals, local police departments, and agricultural extension units." The definition is not the same as PI-23 for PEFA 2011. The Field-Guide also specifies for dimension PI-8.3 that "services managed and financed by other tiers of government should be included if the Central Government significantly finances such services through reimbursements or earmarked grants, or uses other tiers of government as implementing agents" (see footnote on page 69). This is the case for the federal government. Information on resources to the regional and woreda levels where the service delivery units operate

is collected and recorded by the MoH and the MoE, disaggregated by source of funds. A report compiling the information is prepared at least annually.

PI-8.4 Performance evaluation for service delivery

50. At the health sector level, evaluations on the efficiency and effectiveness of service delivery are carried out internally by the Clinical Governance and Quality Improvement Directorate on a quarterly basis with standards valuations based on standard evaluations tools prepared by the MoH. The evaluations are called Ethiopian hospital services transformation guideline which has 20 standards such as leadership, liaison/referral, and so on and clinical audit which has 11 thematic areas/criteria on clinical processes. The same evaluations are also conducted by the MoH annually. Management response to the recommendations remains low. The evaluations are not published. By contrast, evaluations are not carried out at the level of the education sector.

PI-9 Public access to fiscal information

51. Public access to fiscal information in a timely manner provides an opportunity for citizens and users of this information to measure transparency in the usage of public funds. The Addis Ababa Science and Technology University has a functional website (www.aastu.edu.et). The approved annual budget is posted on the website as well as on the student notice board; the budget is published within 17 days after approval. Also posted on the notice board are tender notices for procurement and quarterly performance evaluation reports. That said, quarterly budget execution reports, annual procurement plan, procurement contract awards, and annual financial statements are neither posted on the notice board nor published on the website.

52. The AAU CHS is an affiliate campus and medical facility of the AAU. It provides both medical and pharmaceutical training for tertiary students, and also serves as a referral medical facility. The college has no separate website but the main university has a functional website. Information relating to both the main AAU and CHS is posted on the main AAU website (www.aau.edu.et/chs/). While the approved annual budget of CHS (which is part of the main university's budget) is published on the website, the budget execution reports (quarterly and annual) are not published, likewise annual procurement plan and information on contract awards for both the main university and the affiliate CHS. It is also important to state that while the main university has a notice board, CHS has no notice board to post key fiscal information such as the budget, tender notices, financial reports, and other information relating to medical services rendered by the facility.

53. The situation is quite different for St. Paul's Hospital Millennium Medical College. Approved annual budget and the quarterly budget execution reports are posted on the notice board. The medical college also conducts public forums with health professionals and the community to discuss topical issues. Whereas tender notices are made public, contract awards are not published.

Pillar III: Management of assets and liabilities

PI-11 Public investment management

54. The team visited a couple of federal education and health institutions including Addis Ababa Science and Technology University, AAU and its affiliate CHS, and St Paul's Hospital Millennium Medical College, to assess the PIM practices.

Health

55. St. Paul's Hospital Millennium Medical College has an engineering department responsible for PIM, though there is no evidence of the existence of PIM guidelines. All decisions and selection of capital projects are solely the prerogative of the hospital without interference from the MoH. Project

supervision for mega capital projects is done by external consultants; the engineering department supervises smaller projects. The implementing unit does physical and financial monitoring of capital projects. There are five capital projects that are still ongoing; these are listed in Table A7.21. Overall usage of capital budget stood at 89.5 percent. Project costing is budgeted for annually; there is no medium-term perspective in capital budgeting.

Table A7.21: St. Paul's Hospital Millennium Medical College capital projects for 2017/2018 (ETB)

Project	Original budget	Adjusted budget	Actual expenditure	% usage
Cancer and cardiac center	242,000,000	300,959,839.13	454,154,054.33	150.9
MCH	158,000,000	233,139,205.29	45,834,595.32	19.7
Emergency medical center	76,480,000	46,104,145.28	46,220,175.19	100.3
Dormitory for doctors	72,760,000	16,760,000.00	2,253,858.71	13.4
Dormitory for Worabe Hospital	50,760,000	17,760,000.00	1,987,623.55	11.2
Total	600,000,000	614,723,189.70	550,450,307.10	89.5

Education

56. PIM in Addis Ababa Science and Technology University is weak. There are no PIM guidelines. Though the university has a project office, it only evaluates capital projects after they have been approved by the university's board of directors. The project office has no role in defining these capital projects; it also has no idea of the selection criteria for capital projects. At the time of the team's visit, there were no ongoing capital projects.

57. At the CHS, which is a medical educational facility and a health referral facility, officials indicated that all its capital projects are the responsibility of the main AAU. Officials are not aware of the existence of PIM guidelines. Project selection is done jointly by AAU and the CHS, after the CHS submits an official request of capital projects it needs, usually based on list of priorities. In the last three years (EC 2008 to EC 2010), two capital projects have been initiated by the main university: construction of an Outpatient Department and an Emergency Block. These projects have stalled, mainly due to financial constraints. Officials indicated that delays in the completion of capital projects, especially the Emergency Block, is having serious negative impact on service delivery for patients with emergency cases.

58. At AAU, there is no PIM guideline. Selection of capital projects is done on a need basis and list of priorities submitted by its affiliates such as the CHS. A number of capital projects have been approved and budget for during FY2017/2018; these are listed in Table A7.22. Based on available data, the percentage usage of capital budget stood at 65.9 percent.

Table A7.22: AAU capital projects for 2017/2018

Project	Original budget	Adjusted budget	Actual expenditure	% usage
Completion of existing projects	212,250,000	257,812,296.99	249,159,558.17	96.6
Main campus students' dormitory construction	24,500,000	24,500,000.00	24,500,000.00	100.0
Main campus class rooms complex and school of commerce construction	129,250,000	155,199,753.98	155,199,753.98	100.0

Project	Original budget	Adjusted budget	Actual expenditure	% usage
Tikur Ambessa Hospital students' dormitory construction	98,000,000	86,000,000.00	7,754,222.26	9.0
ICT Development	65,000,000	128,212,184.23	128,212,170.80	100.0
Geography and space science research center construction	62,000,000	20,666,666.68	2,063,250.46	10.0
Addis Ababa Technology Institute class rooms, lab, and office construction	14,000,000	2,545,454.54	No data	
Scholl of Journalism classrooms and office construction	100,000,000	47,709,119.48	No data	
Tikur Ambessa Hospital outpatient center construction	45,000,000	107,604,000.00	No data	
Ethiopian language and cultures academy office and museum construction	14,000,000	14,000,000.00	No data	
Sport science gym construction	21,000,000	No data	No data	
TikurAmbessa Hospital postgraduate students' dormitory construction	30,000,000	15,000,000.00	No data	
Residence building construction	30,000,000	No data	No data	
Main campus examination center construction	5,000,000	1,363,636.35	No data	
Total	850,000,000	860,613,112.25	566,888,955.67	65.9

PI-12 Public asset management

59. The CHS, an affiliate of AAU has a fixed asset register; however, this is not regularly updated. The last update was in EC 2009. IFMIS has been installed at the CHS for budget and financial management. Nonetheless, the IFMIS fixed asset module is yet to be used; there is no information on fixed assets in IFMIS. Model 19 (goods received voucher) is used for receipt of goods and for fixed assets. There has been no fixed asset disposal in the last three years.

60. AAU, on the other hand, uses IFMIS to record fixed assets. At both institutions (AAU and CHS), each staff in possession of a fixed asset signs a user card. This card is used to reconcile the existence of fixed assets with the fixed asset register. The asset register contains a list of furniture, office equipment, vehicles, buildings, and computers. The internal audit unit at the CHS has, however, raised concerns regarding the usage and safeguarding of fixed assets; assets are poorly maintained and also not properly safeguarded.

61. The Addis Ababa Science and Technology University also maintains a fixed asset register, both a manual version and within IFMIS. The manual asset register is updated annually. There has been no asset disposal in the last three years. Model 19 (goods received voucher) is used for receipt of goods and for fixed assets. The institution also uses the asset user card to monitor the existence, usage, and location of its fixed assets.

62. St Paul's Hospital Millennium Medical College also maintains a manual fixed asset register; it has started capturing information on fixed assets into IFMIS since April 2019. Physical fixed asset count is conducted each year and reconciled with the manual asset register. It also uses Model 19 (goods received voucher) for receipt of goods and for fixed assets. The stores department uses the stock card to manage movement of medical supplies to the dispensary; annual stock is conducted. St. Paul's has

four different stores: Food, Technical, Spare Parts, and Stationery. For lack of adequate storage facility and space, these items are not properly shelved. The hospital is currently in the process of disposing of some of its obsolete fixed assets; this follows a new directive by the federal Public Procurement and Property Administration and Disposal Agency in January 2019, allowing government institutions to sell obsolete fixed assets above ETB 10,000 except for computers and electronics. At the time of visit, the hospital published the tender for asset disposal, which is currently at the evaluation stage.

Pillar IV: Policy-based fiscal strategy and budgeting

PI-16 Medium-term perspective in expenditure budgeting

PI-16.1 Medium-term expenditure estimates

63. The annual budgets of BIs do not present expenditure for the two following fiscal years.

PI-16.2 Medium-term expenditure ceilings

64. BIs are not responsible for approving medium-term expenditure ceilings. This is the prerogative of the federal government. As a result, the dimension score is NA. At the federal government level, medium-term expenditure ceilings are approved by the Council of Ministers after the BCC is issued. In 2018, the BCC was issued on February 5 (see PI-17.1). For the preparation of the budget for FY 2011 EC and FY2018/2019 GC, both the MEFF and the MTEF were approved by the Council of Ministers on February 14, 2018. The MTEF includes both aggregate and ministry-level ceilings for the budget year and two outer years and the MEFF includes the aggregate ceilings.

PI-16.3 Alignment of strategic plans and medium-term budgets

65. All the BIs in the sample have multiyear strategic plans but none of them are costed.

PI-16.4 Consistency of budgets with previous year estimates

66. As the multiyear strategic plans are not costed, they do not present multiyear estimates. There is no multiyear estimate against which consistency of budgets can be measured.

PI-17 Budget Preparation Process

PI-17.1 Budget calendar

67. The same budget calendar applies to the sample at the federal government level as the sample for the BIs. The calendar allows six weeks to complete estimates. All the four BIs in the sample (except for EPSA as it is a public corporation) submitted their proposals on time.

PI-17.2 Guidance on budget preparation

68. For the overall PEFA, the hospitals and the universities being BIs receive the BCC with ceilings from the MoF. The BCC is comprehensive and covers budgetary expenditure for the full fiscal year. The ceilings were approved by the Council of Ministers just after the BCC was distributed to the BIs but before they completed their submissions on March 22.

PI-17.3 Budget submission to the legislature

69. The fiscal year in Ethiopia starts on July 8. The executive has submitted the budget proposal to the BFC at Parliament around 5 weeks before the start of the fiscal year for the last three years.

Pillar V: Predictability and control in budget execution

PI-21 Predictability of in-year resource allocation

PI-21.3 Predictability of in-year resource allocation

Health

70. The usual practice in the budgetary units of the federal government is to prepare annual cash flow forecast based on commitment ceilings provide by the MoF at the budget preparation stage. The annual cash flow plan is updated quarterly based on actual outflow and inflow. Based on their respective budget ceilings, the BIs file monthly requests for actual cash transfer with the MoF. Generally, there were no instances of cash shortage in the last three years on the recurrent budget of the visited hospitals and the health college. However, shortage of cash in the capital budget (as described in PI-7.2) for payment to procurement contractors was reported for St. Paul's Hospital Millennium Medical College. The Black Lion Hospital had cases of cash shortage in the recurrent budget over the last three years. This was when their cash request was rejected because the document form was not complete. Nevertheless, even if cash is delayed for the respective monthly transfer during the year, by the end of the year all cash is received. The priority payment in case of cash shortage is payment of salaries, which is partially compensated with own-source revenue. The internal revenue sources of the hospitals are service fees and drug sales. There were also delays in the payment of salaries in the Black Lion Hospital when the own-source revenue could not cover the volume needed for salary payment. As stated, these delays were not due to deficiencies of the PFM system but rather for technical reasons.

71. When the service delivery units belong to a bigger organizational structure, the budgets of the hospital and the college are consolidated by the central administration office and submitted to the MoF. The same goes for the budget execution reports that are consolidated by the central administration office and submitted to the MoF.

72. The BIs of the federal government directly involved in service delivery apply the resource allocation procedure relevant for all federal government level budget entities. There is no difference in how cash is planned, requested, and disbursed to the BIs in the health and education sectors. The process is identical for all BIs. The cash flow of the hospitals is prepared applying the procedures relevant for all BIs in the federal government. Annual cash flow forecast, quarterly update, and monthly cash request are filed with the MoF. Both hospitals had cases of cash shortages over the last three years. Delays happen during the year; however, by year-end, all requested cash resources are provided.

Education

73. The usual practice relevant for the BIs of the federal government on cash flow forecasting and monitoring is true for the education sector as well. The visited AAU and the Addis Ababa Science and Technology University both prepare cash flow forecasted annually based on the commitment ceilings and the approved budget. Quarterly updates of the annual cash plan are submitted to the MoF. Monthly cash flow requests are filed with the MoF based on the approved budget ceilings. The MoF may also request evidence to justify the cash requests. There were no incidences of rejection of cash though delays in the beginning of the fiscal year are common. There was no instance of cash shortage in the last three years in both the recurrent and capital budgets. All payment processes are executed and managed by each faculty and the report is submitted to the main campus for consolidation and submission to the MoF.

PI-22 Expenditure arrears

Health

74. Expenditure arrears have occurred in the health sector due to unpaid capital projects. This was the case with St. Paul's Hospital Millennium Medical College that incurred ETB 250 million arrears on capital projects in EFY 2010. The arrears represent less than 1 percent compared to the actual annual expenditure for the same year. The arrears occurred because the MoF did not approve the request for payment due to cash shortage. ETB 150 million of these arrears are on the construction of a cancer center and the remaining on other projects. The situation is similar with the Black Lion Hospital. The grace period payables for EFY 2011 are credit payments for medical equipment and drugs from EPSA; these arrears amount to ETB 151 million, dating back to EFY 2007. The arrears were transferred to the Black Lion Hospital from the MoH. The stock of arrears is more than 12 months old. The arrears' age is monitored but does not appear in the annual financial accounts. It was reported that it was budgeted for payment in July 2018.

Education

75. There is a stock of arrears at AAU from EFY 2010 with balance of ETB 7,376,419 in sundry creditors' accounts. This represents less than 1 percent of unpaid payables to suppliers but also includes other payments. Most of the payables were carried forward from EFY 2008 and since there was no subsidiary ledger, it is difficult to separate the expenditure arrears from other payables. There are no outstanding payables at Addis Ababa Science and Technology University. The grace period payables are paid within a month after year-end.

PI-23 Payroll controls

PI-23.4 Payroll audit

Health

76. There is high staff turnover due to low salary in the health sector. Nevertheless, the percentage of turnover is unknown. Retroactive changes are not registered because all staff changes made by the HR Department are communicated by a letter to the Finance Department immediately to reflect the changes in the payroll for the same month's payment. Payroll audit is performed every year.

Education

77. In the education sector, there is integration of payroll and staff list. The payroll payment is synchronized with the personnel file on actual number of staff and every three months reconciliation is made with the HR data. Payroll audit is carried out every year using the data in IFMIS. There is 100 percent checking of diploma authenticity and credentials, which are verified by a special committee established for this prevalent problem. There is no retroactive adjustment. The HR Department will inform regarding people leaving the organization on the same day of their effective exit from the system. The staff turnover is 10 percent and it is mostly from among the administration staff. The payment of teaching staff in the universities is high. The university teachers benefit from the condominium houses bonus package available for primary and secondary school teachers that is in addition to the basic salary. The lowest remuneration in the university is ETB 8,000 for teachers, ETB 2,000 for administrative staff, and ETB 900 for office clerk.

78. The payroll management system was found to be weak in AAU. 'Ghost' personnel have been reported in the most recent external audit report, with up to two months delay in reflecting payroll changes.

PI-24 Procurement

Health

79. The procurement needs from all hospital departments and the colleges of St. Paul's Hospital Millennium Medical College and Black Lion Hospital are collected and consolidated in a procurement plan. For EFY 2012, after the introduction and deployment of IFMIS to all BIs, the procurement needs will be maintained separately in each department/college. An Annual Procurement Report covers the activities performed in the framework agreement (blanket purchasing). Framework agreement is an option within the Law on Public Procurement and is resorted to for economy of scale. Framework agreements are used for supplies and rental services, maintenance of equipment, and generator service as well. There is no practice of keeping a register on the procurement methods and there is no monitoring on the framework agreement share in the visited hospitals.

80. The procurement bids are usually published in the public newspaper Addis Zemen; the bid evaluation outcome is communicated only to the winning bidder. Complaints can be filed within seven days of notification receipt. There were no complaints in EFY 2011 and only one in EFY 2010. This single case was about a bidder that was disqualified because a different template from the standard bidding documentation was provided. The complaints are filed with the head of the hospital; the next level of appeal is the head of university (in case the hospital is part of a higher educational establishment, the last appeal level is the PPPA). If the complaint is not viable, administrative measures could be imposed, for example, suspension from procurement for a certain period. The complaints resolution is not published; only the claimant will receive the resolution in writing.

81. The usual supplier to the health sector BIs is EPSA (formerly the PFSA) providing more than 50 percent of the supply needs; the rest are particular consumables supplied from specific vendors and this share is about 20–30 percent in the health sector.

Ethiopian Pharmaceutical Fund and Supply Agency

82. The Pharmaceuticals Fund and Supply Agency (PFSA), recently renamed as Ethiopian Pharmaceutical Supply Agency (EPSA), is accountable to the MoH and is established with the objective of supplying quality-assured essential pharmaceuticals at affordable prices to governmental and private institutions throughout the country. The head office and main warehouse are in Addis Ababa and it works with a network of 19 branches throughout the country.

83. EPSA supplies pharmaceuticals in two pipelines: program, where the supplies are provided to the MoH using donor and program funds, and non-program, where supplies are made to different medical establishments on a commercial basis. Currently, 1,373 commodities are being managed by EPSA, but data are not available regarding the total commodities required in the country. The regulatory body for EPSA is the FMHACA. After completion of evaluations of the tenders and selecting the winner, all bidders are notified, the purchase order is raised, and the import process starts. The purchase order is required to be approved by the FMHACA.

84. The database of EPSA is known as Integrated Pharmaceutical Logistics System and it is used to record the stock at each branch and to report on availability to Head Office of EPSA every two months. The procurements are made using the competitive open bid method and almost all tenders are international bids. The procurement data are summarized for EFY 2010 and 2011 in Table A7.23 and Table A7.24.

Table A7.23: EPSA Procurement data for EFY 2010 (central government 2018/2019) in ETB, millions

No.	Description	Category	Local	Foreign	Total	%
1	Purchased with regular budget	Pharmaceuticals	435	881	1,316	18
		Medical supplies and equipment	2	2,084	2,086	29
		Chemical and diagnostics	475	3,404	3,879	53
Total			*912*	*6,369*	*7,281*	*55*
2	Purchased with health program funds	Pharmaceuticals	132	2,993	3,125	53
		Medical supplies and equipment	552	729	1,281	22
		Chemical and diagnostics	0	1,541	1,541	26
Total			*684*	*5,263*	*5,947*	*45*
Grand Total			1,596	11,632	13,228	

Source: EPSA.

85. In 2010, 55 percent of the supplies were procured from the annual budget and 45 percent with health program funds. The majority of the procurement bulk in the supplies purchase with the regular annual budget is for chemical and diagnostics facilities and consumables, whereas for the health programs, the majority procurement expenditure is for pharmaceutical supplies. Table A7.24 shows the procurement volume of EPSA for EFY 2011 which is recorded according to the funds' channels. Around 54 percent are procured from the regular budget and 46 percent from the budget allocated to health programs. The pharmaceuticals are the biggest item purchased with both budget funds.

Table A7.24: EPSA procurement data for EFY 2011 (central government 2017/2018) in ETB, millions

No.	Description	Category	Local	Foreign	Total	%
1	Purchased with regular budget	Pharmaceuticals	1,899	1,371	3,270	58
		Medical supplies and equipment	94	2,186	2,280	41
		Chemical and diagnostics	19	50	69	1
Total			*2,012*	*3,607*	*2,012*	*54*
2	Purchased with health program funds	Pharmaceuticals	177	1,778	1,955	41
		Medical supplies and equipment	3,165	1,242	1,246	26
		Chemical and diagnostics	388	1,161	1,549	33
Total			*568*	*4,182*	*4,750*	*46*
Grand Total			**2,580**	**7,789**	**10,369**	

Source: EPSA.

86. The procurement information of EPSA is easily accessible. The procurement plan, the suppliers list, and the awarded contracts are posted on its website.

87. The supplies from EPSA are of two types:

- Drugs and supplies (such as HIV/AIDs drugs) which are funded by donor programs such as Gavi, UNICEF, and similar organizations. They are free of charge (donation in kind). The donor transfers the funds to the MoH. EPSA launches an international open tender; when all the necessary procurement arrangements have been fully completed, the supplies are delivered to EPSA. The hospital makes an official request with EPSA and the supplies are delivered to the hospital stores. The Stores Department issues a goods received note to EPSA as evidence of the delivery. The Pharmacy Department makes an official request to the Stores Department for supplies through a requisition form, after which the requested supplies are delivered.

- The second type of supplies from EPSA are for commercial drugs. These are supplied on agreed credit terms to the hospital, accompanied by a goods received note and the credit invoice. The same process is used for storage and delivery to the pharmacy.

88. The hospital also purchases drugs from the private sector through competitive bidding, when EPSA has no stock. The same procurement and delivery method described above is adopted. The hospital pays for commercial supplies (either from EPSA or private sector) from its budget allocation from the Federal MoF and/or from its internally generated funds.

89. The purchase and storage of pharmaceuticals is handled by the Pharmacy Department. The procurement from EPSA is around 30–40 percent of the total pharmaceuticals. It is common for EPSA to run out of stock. The departments can procure on their own but the framework agreements for pharmaceuticals that are out of stock at EPSA are entered only with the central Procurement Department of the hospitals and the private suppliers for a period of one year. All hospital departments are then required to buy from these suppliers. The procurement data are entered in IFMIS but currently the system is not operational. The complaints are filed with the central Procurement Department of the hospitals and are considered by the Procurement Committee, which evaluates the tender bids. The usual practice is that the complaints are filed, considered, and resolved by the same people who are involved in the tender evaluation. Appeals can be also resolved by the head of the organization in case of disagreement. Any supplier who is not satisfied with the decision made by the hospital can go to the FPPA. Different institutions seem to be involved in the procurement appeal mechanism.

90. Six complaints were filed in the last completed fiscal year EFY 2011; two were solved internally and four were referred to the PPPDS (from these four, three are resolved in favor of the hospital and one is still pending).

91. The budget sources for procurement of medical supplies are strictly defined in EPSA. Supplies are procured with the respective allocated budgets for regular purchase and that of the health programs. EPSA maintains a detailed database of all procured items and this information is easily available with the respective financial and budget function. The procurement information of EPSA is easily accessible.

Education

92. The Federal Government Procurement and Property Administration Proclamation provides the legal framework for the activities performed. There is procurement and property management function within the administration of both visited universities, AAU and Addis Ababa Science and Technology University. The universities can open tenders for all types of procurement (works, services, goods) except for procurement of vehicles, which are procured by the PPPDS. This is a United Nations Development Programme (UNDP) program for investment in infrastructure and service delivery. The objective of the PPPDS is to “improve access of the poor to basic services such as water, waste management, and health by promoting inclusive partnerships between local government, private sector and communities” (Prospects of PPP in Ethiopia, UNDP Ethiopia No. 1/2015 UNDP). The procurement team of Addis Ababa Science and Technology University consists of nearly 20 people involved in preparation of tender notices, collection, evaluation, and administration of the submitted bids. The usual procurement bids are open for technical equipment and laboratory facilities (for example, propylene lab storage cabinet), chemicals, and consumables. These are usually procured

from international companies and imported through international tender bids. All submitted tender bids are stored and achieved after five years. There is no database or record maintained with details on the procurement methods applied, the contracts concluded, value of procurement, and so on.

93. Framework agreements with three-year duration are also used for procurement of routine items (stationery, consumables). The procurement function in AAU is decentralized, meaning that each faculty procures by itself except for international tenders, which are done by the central procurement office of the university. Thus, each faculty prepares procurement plan and performance report that is consolidated by the central procurement office. The procurement data are recorded on IFMIS; still the procurement statistics that shows the procurement method cannot be generated.

94. The usual method is reported to be competitive open bidding, but data were not provided. The procurement information provided to the public is only the bidding opportunities published on the notice board and the website of the universities. The information on procurement plans, contract awards, and performance statistics is not published. The procurement complaints mechanism is realized through filing claims with the procurement team that are reviewed at the procurement function level but mostly resolved by the Presidents of the universities. There is no record on filed and resolved appeals either.

95. There is no procurement database. There is no procurement monitoring in the education sector. Databases and records on the total value of procurement contracts awarded do not exist. Open bidding is the usual method, but evidence of this was not provided. According to the Federal Procurement Proclamation, all BIs should report to the FPPA quarterly on performance but evidence was not provided. There is no public access to the procurement information. The universities receive procurement complaints and they are resolved but there are no statistics on resolution of complaints. The independence of the complaints handling mechanism is not ensured.

PI-25 Internal control on non-salary expenditure

96. Both the health and education sector ministries and their branches, including the service delivery units, have clear organizational structure. Duties for preparation of disbursement documents, review of payment requests, approval, and signing of checks are well segregated. Checks are signed by two signatories at a time; disbursement requests are reviewed for budget availability by an accountant responsible for budgetary control. All universities and hospitals have internal auditors who oversee the compliance of the various PFM rules. Internal audit units in the health sector indicated that the function of preparation of receiving and issuing of vouchers is segregated from the delivery of goods as documents are prone to manipulation.

97. Though the jobs are clearly segregated and the various PFM policies, procedures, and regulations are in place, it appears that certain checks and balance systems do not function well in some of the service delivery entities. Cashiers were not monitored for depositing the cash they collected for several months. Medical equipment purchased or received in the form of grant are kept idle and some remain unpacked for several months and years in building corridors. Systems designed for asset management and inventory control do not seem to be functioning in some of the visited service delivery units (and also as reported by OFAG). Annual physical counts seem symbolic as there is no point in counting unless count reports are reconciled against valid and reliable records.

98. The law requires commitment control against approved budget and cash availability. Generally, for recurrent expenditure, commitment is entered for items in the approved cash flow requirement request. Service delivery units are required to submit annual and quarterly cash flow requirement reports to the MoF. IFMIS does not have a commitment control feature and budgetary units are monitoring commitments outside the system, using Excel spreadsheets. As the commitment

practice is not up to date or dynamic, overspending is common for some service delivery units. For example, the St. Paul's Hospital Millennium Medical College overspent ETB 300 million[41] for certain line items (with a net overspending of ETB 1.7 million) over the approved budget.

99. To get approval for cash flow requirement requests for capital projects, service delivery units are required to submit vendor invoices. The amount of commitment to capital projects is to the extent of approved annual budget. Contractors may continue working regardless of cash availability. As a result, contractors may not get paid on time if the MoF Treasury does not have enough cash to transfer to BIs even when cash flow requirements with supporting evidence are submitted to the MoF. For example, St. Paul's Hospital Millennium Medical College reported arrears of ETB 250 million in EFY 2010 in connection with capital projects.

100. Rules and regulations on payment are generally respected at the federal government level. According to the report of OFAG, most of the universities stated overriding of payment procedures at different levels. Universities represent about 80 percent of the total long outstanding receivables (ETB 228 million) reported by OFAG (EFY 2009). Delays in settlement of advances are a common limitation reported in almost all visited service delivery units. Internal audit reports and OFAG reports indicated claims which were not enforced by universities when contractors failed to deliver based on the agreement.[42] Noncompliance to payment rules and regulations is high in universities. OFAG reported that payments of ETB 163 million[43] at the Federal Government of Ethiopia level were not in line with payment rules and regulations. Out of this, ETB 154 million (94 percent) is attributed to universities. OFAG's findings indicated that procurement value of ETB 95 million was not in line with procurement rules and regulations. Out of this, ETB 210 million (22 percent) is attributed to 42 universities. Twelve universities effect payments (ETB 27 million) without supportive government rules and regulations. Two hospitals paid ETB 1.9 million without supportive rules and regulations.

101. Three hospitals' (Amanuel, St. Paul's, and St. Peter hospitals) noncomplying payment to procurement rules was about ETB 287,000. There are no significant findings for the health sector in connection with disbursements other than delays in settlement of advances to staff members.

PI-26 Internal audit

102. All public bodies in the health and education sectors of the Federal Government of Ethiopia including the MoE, MoH, hospitals, and universities have internal audit units. EPSA has an internal audit unit.[44] Some of the visited internal audit units indicated that they do not conduct performance audits due to shortage of manpower. The average filled positions in the internal audit units of the education and health sectors of the Federal Government of Ethiopia are about 44 percent and 38 percent of the total requirement, respectively. Black Lion Hospital (which includes a medical college)[45] has only one internal auditor. St. Paul's Hospital Millennium Medical College has 3 auditors (out of 11 required). AAU has 3 auditors (out of 19 approved internal audit positions). EPSA has 46 internal auditors, which represents 20 percent of the total internal auditors' positions allowed for it previously. A new study is ongoing by the Ministry of Civil Service, which will determine the manpower requirement.

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[41] Internal audit report of St. Paul's Hospital Millennium Medical College and management letter.
[42] Addis Ababa Science and Technology University internal audit reported unclaimed loss of ETB 6.5 million which was later recovered.
[43] OFAG report (EFY 2010) issued in 2018/2019. The amount in the body of the report is ETB 145 million; however, the annex total is ETB 154 million.
[44] EPSA (used to be called PFSA) is responsible for the supply of about 50 percent of pharmaceutical supplies for health service delivery facilities. It has seven clusters and 19 branches throughout Ethiopia. It has 46 internal auditors. EPSA issued 34 internal audit reports during EFY 2010.
[45] Black Lion Hospital has about 3,000 employees.

103. Most of the internal audit works focus on compliance audit on financial transactions though some of the internal audit units also conduct inventory, fixed assets, and procurement audit. Internal audit units follow the Internal Audit Manual issued by the MoF. Most of the internal audit units generally follow the internal audit standards prescribed in the manual when preparing annual audit plans, conducting exit conference, writing reports, and following up on internal audit findings. Annual audit plans are not supported by a comprehensive risk assessment. The internal audit plans focus mainly on compliance risks and provide little or no emphasis to systemic audits (audit of the efficiency and effectiveness of existing internal controls). The PEFA team was able to review the internal audit reports of visited entities except EPSA as the internal audit unit was not willing to provide data.

104. Some of the visited internal audit units indicated that they accomplished all their annual audit plans (for example, EPSA, St. Paul's Hospital Millennium Medical College). St. Paul's Hospital Millennium Medical College indicated that its annual plan is restricted to the number of staff it has, it thinks that the coverage is less than 50 percent. Most of the internal audit units submit quarterly audit reports to the MoF. Internal audit units of colleges which are under universities report to the head of their respective colleges and to the head of the internal audit unit head of the university. The Internal Audit Unit at Black Lion Hospital has issued one audit report during EFY 2011 though it was required to submit at least four reports. The hospital is under AAU. The internal auditor indicated that a program for audit of donor-funded projects could not be accomplished due to the Finance Unit's failure to update the financial ledgers and provide financial reports. The Internal Audit Unit of Addis Ababa Science and Technology University could not accomplish 20 percent of its annual audit plan because of delayed financial reports as a result of IFMIS implementation.

105. Generally, management responds to internal audit findings in writing. The management of Addis Ababa Science and Technology University responds to audit findings within 30 days from receipt of the audit report. Some of the internal audit units indicated that there is a lack of commitment from management in implementing internal audit recommendations. OFAG also indicated that the lack of management commitment in the implementation of internal audit findings contributed to the recurring nature of most of the audit findings (OFAG report 2018/2019). Visited internal audit units prepare an audit findings' follow-up matrix and report to the Inspection Directorate of MoF. The matrix indicated the action taken by management. In addition, the Inspection Directorate issues letters for significant audit findings and also when management did not respond on time. When it comes to implementation, the recurring nature of basic audit findings casts doubts on the effectiveness of implementation of findings, if any, by the management of most of the universities. The same applies to hospitals in connection with property and pharmaceutical supplies management.

Pillar VI: Accounting and reporting

PI-29 Annual financial reports

106. All visited hospitals and universities are using IFMIS. Financial reports are generated from IFMIS. All of them submit printed reports to the MoF though the database is interconnected with the MoF. The report includes trial balances, budget execution reports, bank reconciliation reports, and bank statements. Reports are required to be submitted to the MoF within seven days from the end of each month. AAU often submits reports after a delay of one month.

107. None of the service delivery units, including the MoE and MoH, prepare a comprehensive financial statement which includes balance sheet, statement of income and expenditure, cash flow, disclosure, and notes to the accounts. Though some of them conduct annual stock taking for fixed assets and inventories, the count reports had not been reconciled with the register. The financial statements do not provide any disclosure as to the value of assets that a university or a hospital has.

108. Universities and hospitals manage several project funds. For example, Black Lion Hospital has about 140 projects funds. According to the internal audit unit of the hospital, financial reports or statement of expenditures could not be available for internal audit purpose due to the backlog in accounting and recording. Neither a consolidated financial report is produced on donor-funded projects nor a disclosure is provided on the amount of revenue received and expenditure incurred.

109. All universities and independent hospitals (which are not under a university like Black Lion Hospital) submit their annual financial report to OFAG for audit. Only one university did not close its accounts and did not submit its annual financial statement. The Federal Government of Ethiopia financial management manual is used as a guiding standard for financial reporting. It is based on modified cash basis accounting where revenues are recognized when received and expenses are recorded when incurred. Inventories and non-current assets purchased are expensed at the time of purchase. The manual does not follow any international accounting standards. Though the manual provides guidance on the preparation of statement of financial positions, cash flow statements and disclosures on certain items, financial reports produced by the MoE, MoH and service delivery units do not contain these items. Hospitals under universities do not submit separate reports to OFAG. They are audited as part of the universities. The only service delivery unit which received unqualified audit opinion (EFY 2010) is St. Peter Specialised Hospital. Universities represent about 25 percent of the audited entities in EFY 2010 but represent 46 percent of the audited entities which have received adverse and disclaimer audit opinion. This partly indicates an overall concern on the quality of the financial reports of the majority of the universities. EPSA also received an adverse opinion for the financial year ended July 7, 2017. The audit of EFY 2010 (2017/2018) is ongoing. Significant accounting and recording errors are cited in the audit report.

110. Financial reports prepared in line with international standards provide useful information for both internal and external users as a confirmatory tool for the delivery of services and also as a predictive tool to tell about the future potential of the reporting entity. The management of service delivery entities should demand and use financial reports to measure their performances on efficiency and effectiveness of service delivery. The management would have been addressing recurring long outstanding advances and payables, unaccounted assets, irregularities in disbursement, and revenue collection procedures had financial reports been produced and acted upon timely for a better service delivery. The cost, availability, and quality of medical supplies heavily depend on the strength of this agency. EPSA, as a key player in the distribution of pharmaceutical supplies (with a market share of about 50 percent) is performing poorly in terms of financial transparency, accountability, and ability of providing useful information.

Pillar VII: External scrutiny and audit

PI-30 External audit

111. As indicated in the main report, OFAG audit coverage is 100 percent. In addition to the MoE and MoH, universities and hospitals were audited by OFAG. All service delivery sectors and their branches, including hospitals and universities, have been audited by OFAG. As shown under Table A7.25, 44 universities and 3 hospitals, the MoE, MoH, and other related ministries and agencies in the health and education sectors have been audited during EFY 2010. All were audited during EFY 2008 and 2009.

Table A7.25: Audited service delivery by OFAG

	No. of audited entities	Unqualified	Qualified	Adverse	Disclaimer	No report
All	176	25	89	49	11	1
Universities	44	Nil	16	26	2	1

	No. of audited entities	Unqualified	Qualified	Adverse	Disclaimer	No report
	25%	Nil	18%	53%	18%	
Hospitals	3	1	2	—	—	—
MoH	1	—	1		—	—
MoE	1	—	—	1	—	—

112. As shown in the table, out of 44 audited universities, 16 received qualified audit opinion and 26 received adverse opinion. Major findings have been indicated under PI-25. EPSA, audited by the ASC, has received a disclaimer audit opinion. The lack of clarity with significant accounting adjustment on stocks, abnormal balances, unaccounted stock items, inadequate provision for doubtful accounts, and significant balance of suspense account are the main issues for the disclaimer opinion.

113. OFAG has conducted performance audit on the health and education sectors for selected entities during EFY 2009 namely, the Food, Medicine and Health Care Administration and Control Authority; EPSA (the then PFSA), and the Ministry of Technical, Vocational Education, and Training. In EFY 2010, OFAG conducted performance audit on the performance of the MoH on prevention and control of communicable diseases, the performance of 11 new university projects, and the performance of the federal TVET agency. The performance audits assessed performances of the entities' specific objectives and functions against standards and impacts on service delivery and provided recommendations.

114. OFAG is required by law to submit the audit of consolidated annual financial statements. However, OFAG submits individual audit reports of ministries, universities, and hospitals with adverse and disclaimer audit opinions and also performance audit reports. Management of audited entities provide comprehensive written response to OFAG.

115. OFAG is independent and has the freedom to choose which service delivery units to audit, when to report, and unlimited access to information.

6. Conclusions

116. Based on the above, the service delivery assessment of five federal government BIs, it is to be concluded that the PFM processes function is similar to the federal government level of ministries and agencies. The same legal framework and operational procedures are in place and there were no specific service delivery findings revealing different facts from the main PEFA report. The general observation is that the weaknesses found with the federal government central budgetary entities hold true for the visited hospitals and universities in the health and education sector. The following is a summary of the usual findings.

Pillar I: Budget reliability

117. The aggregate expenditure outturn in the health sector, including the visited hospitals, deviated substantially from the budgeted, the reason being the mostly unrealistic budgeting processes and in-year budget adjustments for capital investment projects. The education sector budget shows more reliable budget planning with lower deviation of the aggregate budget outturn against original budget varies (PI-1). There is no consistent trend in the visited entities. While AAU's actual expenditure outturn was above budget, that of Addis Ababa Science and Technology University was significantly lower than the budget in the last three years. The factors contributing to such outcome are the high inflation in 2015/2016, unrealistic budgeting processes (AAU), and underperformance in capital budget (Addis Ababa Science and Technology University).

Pillar II: Transparency of public finances

118. The outcome with the expenditure composition is also not good with more than 15 percent outturn (PI-2).

119. There are no operations outside the federal government financial report. Both expenditure and revenue of the BIs visited in the health and education sectors are captured in the federal government budget and accounts (PI-6 scored A).

120. Timeliness of information on the transfers is good. Both universities and the hospitals receive reliable information from the MoF that allows them at least two months before the start of the new fiscal year to prepare their annual budgets (PI-7.2).

121. There is little transparency, if any, on the performance information for service delivery. The planned and achieved outcomes, as well as the quarter performance evaluations, are not published (PI-8). The public access to key fiscal information is also weak where only the approved budget and in-year budget execution reports are published at St. Paul's Hospital (PI-9).

Pillar III: Management of assets and liabilities

122. The PIM function shows that there is no economic analysis and no medium-term costing of the proposed investment projects (PI-11). The nonfinancial assets management is generally good, with all institutions visited maintaining either a manual or electronic fixed asset register that is updated annually (PI-12.2). The medium-term perspective in expenditure budgeting undermines the fiscal discipline and does not provide grounds for strategic allocation of resources from a medium-term perspective.

123. The hospitals and universities receive ceilings from the MoF and communicate them to all departments and faculties. Based on the ceilings, the visited universities plan and commit expenditure well in advance. Each faculty prepares its own budget and the administration of the main campus consolidates and submits it to the MoF. When the monthly drawing limit is received, the main campus administration withdraws from the Z-account and transfers to each campus. The monthly drawing limits are respected. There was no instance of cash shortage in the last three years in the recurrent budgets of the visited Bis; however there were repeated instances of insufficient cash in the capital budgets of almost all visited BIs. This resulted in less development expenditure for rehabilitations, reconstruction, and maintenance of school and health facilities.

Pillar V: Predictability and control in budget execution

124. Expenditure arrears (PI-22) are incurred for less than 1 percent of total expenditure. The arrears represent grace period payables to procurement contractors and are usually cleared at year-end.

125. The Human Resource file (PI-23) is integrated with the payroll. The reconciliation is manual but changes in the number of staff are communicated in time for the monthly payment of salary. Still, the external audit report disclosed cases of 'ghost' workers in AAU.

126. The hospitals procure medical supplies from two sources (PI-24): first from EPSA and second from the private sector. The existing directives require that medical supplies are procured from EPSA with priority. Supplies are sought from the private sector only when EPSA provides an official stock-out notification to the hospital. No fees are charged for access to the complaints mechanism, but the internal resolution process is not independent. While the central federal government BIs (ministries

and agencies) are supposed to refer claims to the Complaint Reviewing Board, the health sector tertiary-level BIs (hospitals, colleges) resort to the PPPDS as the higher-level complaint body.

127. The procurement function in the education sector is performed by the main campus/administration of the universities/hospitals with some extent of decentralization to the colleges and department. There is no database or register to record the data on procurement, that is, what has been procured, value of procurement, and who has been awarded the contracts. The BIs visited are responsible for reporting quarterly to the FPPA. They appear not to respect the deadline and the annual procurement performance report submitted to the FPPA was generally not available.

128. Effective internal control (PI-25) is critical for the efficient use and safeguarding of resources. The existence of clear organizational structure and segregation of duties helped in strengthening the internal control. The presence of comprehensive PFM rules and regulations were instrumental as a guidance and a basis for monitoring of compliances. The weaknesses in commitment control and the overriding of payment rules and regulations, mainly by the universities, has significantly affected service delivery. Significant amount of advance payments was either paid and did not result in provision of the contracted services for reconstruction of classrooms and hospitals or were not claimed at all by the contractor. This is how these designated funds remained outstanding for multiple years. As indicated under PI-26, the internal audit functions did not focus on assessing the effectiveness of the existing internal controls. Hence, it is vital to revisit whether the existing standardized PFM rules and regulations are best fit for each sector of the Federal Government of Ethiopia.

129. The role of internal audit (PI-26) is vital in ensuring efficient service delivery. The presence of functioning internal audit units in all public bodies and service delivery units and also submission of audit reports and implementation of recommendation by some of the units contribute to the quality of service delivery. However, limited number of internal audit staff (which is partly related to unattractive pay scale), the limited application of internal audit standards (limited focus on system and risk-based audits), and the limited commitment of certain heads of service delivery units significantly affect the role of internal audit functions in supporting the performance of service delivery.

Appendix 1: Data used for scoring PI-1 and 2

PI-1 and PI-2.1 Education

1.1 Education Sector

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	17,631.2	18,680.2	18,340.5	339.8	339.8	1.9
Learning and Teaching	9,296.0	9,851.2	9,670.0	181.3	181.3	1.9
Research and Development	429.6	354.7	446.9	−92.2	92.2	20.6
Community Consultancy Service	1,614.1	1,678.4	1,679.0	−0.6	0.6	0.0
Education development programs	3,956.7	3,687.6	4,115.8	−428.2	428.2	10.4
Allocated expenditure	32,927.48	34,252.20	34,252.20	0.0	1,042.05	
Interest	—	—				
Contingency	—	—				
Total expenditure	32,927.48	34,252.20				
Aggregate outturn (PI-1)						104.0
Composition (PI-2) variance						3.0
Contingency share of budget						0.0

Data for year = 2016/2017

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	21,505.4	21,368.2	22,961.5	−1,593.3	1,593.3	6.9
Learning and Teaching	10,791.4	12,473.9	11,522.0	951.9	951.9	8.3
Research and Development	551.9	485.0	589.2	−104.2	104.2	17.7
Community Consultancy Service	2,035.4	2,196.5	2,173.3	23.2	23.2	1.1
Education development programs	4,894.4	5,948.1	5,225.7	722.3	722.3	13.8
Allocated expenditure	39,778.53	42,471.77	42,471.77	0	3,394.95	
Interest	—	—				
Contingency	—	—				
Total expenditure	39,778.53	42,471.77				
Aggregate outturn (PI-1)						106.8
Composition (PI-2) variance						8.0
Contingency Share of Budget						0.0

Data for year = 2017/2018

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	21,128.3	21,169.8	22,313.5	−1,143.7	1,143.7	5.1
Learning and Teaching	13,540.8	13,805.3	14,300.4	−495.1	495.1	3.5
Research and Development	983.6	786.9	1,038.8	−252.0	252.0	24.3
Community Consultancy Service	2,486.7	2,403.4	2,626.1	−222.7	222.7	8.5
Education development programs	5,133.3	7,534.8	5,421.3	2,113.5	2,113.5	39.0
Allocated expenditure	43,272.67	45,700.10	45,700.10	0.0	4,227.0	
Interest	—	—				
Contingency	—	—				
Total expenditure	43,272.67	45,700.10				
Aggregate outturn (PI-1)						105.6
Composition (PI-2) variance						9.2
Contingency share of budget						0.0

Results Matrix

Year	for PI-1.1 Total expenditure outturn	for PI-2.1 Composition variance	for PI-2.3 Contingency share
2015/2016	104.0%	3.0%	
2016/2017	106.8%	8.0%	0%
2017/2018	105.6%	9.2%	

1.2 Addis Ababa University

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	1,063.1	1,345.5	1,300.7	44.9	44.9	3.4
Learning and Teaching	577.9	672.7	707.0	−34.3	34.3	4.9
Research and Development	76.8	66.2	94.0	−27.7	27.7	29.5
Community Consultancy Service	130.3	176.6	159.4	17.2	17.2	10.8
Allocated expenditure	1,848.03	2,261.06	2,261.06	0.0	124.14	
Interest	—	—				
Contingency	—	—				
Total expenditure	1,848.03	2,261.06				
Aggregate outturn (PI-1)						122.3
Composition (PI-2) variance						5.5
Contingency share of budget						0.0

Data for year = 2016/2017

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	1,276.6	1,206.6	1,474.4	−267.8	267.8	18.2
Learning and Teaching	646.5	902.3	746.7	155.6	155.6	20.8
Research and Development	41.0	71.4	47.4	24.1	24.1	50.8
Community Consultancy Service	136.5	245.8	157.6	88.2	88.2	55.9

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Allocated expenditure	2,100.69	2,426.10	2,426.10	0.0	535.65	
Interest	—	—				
Contingency	—	—				
Total expenditure	2,100.69	2,426.10				
Aggregate outturn (PI-1)						115.5
Composition (PI-2) variance						22.1
Contingency share of budget						0.0

Data for year = 2017/2018

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	1,207.1	1,900.1	1,291.8	608.3	608.3	47.1
Learning and Teaching	766.0	103.3	819.7	−716.4	716.4	87.4
Research and Development	44.9	0.1	48.1	−47.9	47.9	99.7
Community Consultancy Service	195.0	364.7	208.6	156.1	156.1	74.8
Allocated expenditure	2,212.95	2,368.29	2,368.29	0.0	1,528.8	
Interest	—	—				
Contingency	—	—				
Total expenditure	2,212.95	2,368.29				
Aggregate outturn (PI-1)						107.0
Composition (PI-2) variance						64.6
Contingency share of budget						0.0

Results Matrix

Year	for PI-1.1 Total expenditure outturn	for PI-2.1 Composition variance	for PI-2.3 Contingency share
2015/2016	122.3%	5.5%	
2016/2017	115.5%	22.1%	0%
2017/2018	107.0%	64.6%	

1.3 Addis Ababa Science and Technology University

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	581.4	247.2	287.8	−40.7	40.7	14.1
Learning and Teaching	289.5	186.5	143.3	43.2	43.2	30.1
Research and Development	6.7	2.3	3.3	−1.0	1.0	31.6
Community Consultancy Service	3.3	0.2	1.6	−1.5	1.5	88.8
Allocated expenditure	880.90	436.06	436.06	0.0	86.32	
Interest	—	—				
Contingency	—	—				
Total expenditure	880.90	436.06				
Aggregate outturn (PI-1)						49.5
Composition (PI-2) variance						19.8
Contingency share of budget						0.0

Data for year = 2016/2017

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	782.8	646.9	589.2	57.8	57.8	9.8
Learning and Teaching	344.7	209.6	259.4	−49.9	49.9	19.2
Research and Development	10.2	3.0	7.7	−4.6	4.6	60.6
Community Consultancy Service	5.5	0.9	4.1	−3.3	3.3	79.1
Allocated expenditure	1,143.13	860.39	860.39	0.0	115.55	
Interest	—	—				
Contingency	—	—				
Total expenditure	1,143.13	860.39				
Aggregate outturn (PI-1)						75.3
Composition (PI-2) variance						13.4
Contingency share of budget						0.0

Data for year = 2017/2018

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	773.1	256.4	336.8	−80.3	80.3	23.9
Learning and Teaching	359.8	246.0	156.7	89.3	89.3	57.0
Research and Development	32.9	5.6	14.4	−8.7	8.7	60.6
Community Consultancy Service	3.5	1.3	1.5	−0.2	0.2	14.9
Allocated expenditure	1,169.42	509.40	509.40	0.0	178.6	
Interest	—	—				
Contingency	—	—				
Total expenditure	1,169.42	509.40				
Aggregate outturn (PI-1)						43.6
Composition (PI-2) variance						35.1
Contingency share of budget						0.0

PI-2.2 Education

2.1. Education Sector

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	7,309.7	7,468.1	7,603.8	−135.7	135.7	1.8
Goods and Services	7,909.8	7,868.0	8,228.0	−360.0	360.0	4.4
Fixed Assets and Construction	16,052.5	16,155.6	16,698.3	−542.7	542.7	3.3
Miscellaneous Payments	1,655.5	2,760.5	1,722.1	1,038.4	1,038.4	60.3
Total expenditure	32,927.48	34,252.20	34,252.20	0.0	2,076.8	
Composition variance						6.1

Data for year = 2016/2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	8,553.8	10,961.9	9,132.9	1,829.0	1,829.0	20.0
Goods and Services	10,389.8	9,458.4	11,093.2	−1,634.8	1,634.8	14.7
Fixed Assets and Construction	20,186.0	19,698.0	21,552.7	−1,854.7	1,854.7	8.6
Miscellaneous Payments	649.0	2,353.4	692.9	1,660.5	1,660.5	239.6
Total expenditure	39,778.53	42,471.77	42,471.8	0.0	6,979.0	
Composition variance						16.4

Data for year = 2017/2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	11,661.0	13,242.4	12,315.2	927.3	927.3	7.5
Goods and Services	11,409.7	11,748.4	12,049.7	−301.4	301.4	2.5
Fixed Assets and Construction	19,505.8	18,076.9	20,600.0	−2,523.1	2,523.1	12.2
Miscellaneous Payments	696.1	2,632.4	735.2	1,897.2	1,897.2	258.1
Total expenditure	43,272.67	45,700.10	45,700.1	0.0	5,648.9	
Composition variance						12.4

Results Matrix

Year	Composition variance
2015/2016	6.1%
2016/2017	16.4%
2017/2018	12.4%

2.2 Addis Ababa University

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	601.8	761.4	736.3	25.2	25.2	3.4
Goods and Services	434.9	495.2	532.1	−36.8	36.8	6.9
Fixed Assets and Construction	715.1	934.3	875.0	59.3	59.3	6.8
Miscellaneous Payments	96.2	70.1	117.7	−47.7	47.7	40.5
Total expenditure	1,848.03	2,261.06	2,261.06	0.0	169.0	
Composition variance						7.5

Data for year = 2016/2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	616.7	970.3	712.3	258.1	258.1	36.2
Goods and Services	486.0	513.7	561.3	−47.6	47.6	8.5
Fixed Assets and Construction	908.3	839.2	1,049.0	−209.8	209.8	20.0
Miscellaneous Payments	89.7	102.9	103.6	−0.7	0.7	0.7
Total expenditure	2,100.69	2,426.10	2,426.1	0.0	516.1	
Composition variance						21.3

Data for year = 2017/2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	694.1	1,005.3	742.8	262.4	262.4	35.3
Goods and Services	582.6	546.2	623.5	−77.3	77.3	12.4
Fixed Assets and Construction	835.2	673.9	893.8	−219.9	219.9	24.6
Miscellaneous Payments	101.1	143.0	108.2	34.8	34.8	32.2
Total expenditure	2,212.95	2,368.29	2,368.3	0.0	594.5	
Composition variance						25.1

Results Matrix

Year	Composition variance
2015/2016	7.5%
2016/2017	21.3%
2017/2018	25.1%

2.3 Addis Ababa Science and Technology University

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	140.3	103.6	69.5	34.1	34.1	49.2
Goods and Services	190.6	124.3	94.4	30.0	30.0	31.7
Fixed Assets and Construction	548.9	206.7	271.7	−65.0	65.0	23.9
Miscellaneous Payments	1.1	1.4	0.5	0.9	0.9	165.5
Total expenditure	880.90	436.06	436.06	0.0	130.0	
Composition variance						29.8

Data for year = 2016/2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	190.4	146.6	143.3	3.3	3.3	2.3
Goods and Services	208.3	156.2	156.7	−0.6	0.6	0.4
Fixed Assets and Construction	742.6	556.0	559.0	−2.9	2.9	0.5
Miscellaneous Payments	1.8	1.6	1.4	0.2	0.2	16.6
Total expenditure	1,143.13	860.39	860.4	0.0	7.0	
Composition variance						0.8

Data for year = 2017/2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	209.1	176.7	91.1	85.6	85.6	94.0
Goods and Services	210.0	187.1	91.5	95.7	95.7	104.5
Fixed Assets and Construction	749.4	145.3	326.5	−181.1	181.1	55.5
Miscellaneous Payments	0.8	0.2	0.4	−0.1	0.1	40.6
Total expenditure	1,169.42	509.40	509.4	0.0	362.5	
Composition variance						71.2

Results Matrix

Year	Composition variance
2015/2016	29.8%
2016/2017	0.8%
2017/2018	71.2%

PI-1 and PI-2.1 Health

Health Sector

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	255.5	1,944.5	339.7	1,604.8	1,604.8	472.4
Health and Medical Services	5,650.6	4,063.4	7,512.7	−3,449.3	3,449.3	45.9
Health Service Improvement	469.3	2,468.5	624.0	1,844.5	1,844.5	295.6
Allocated expenditure	6,375.41	8,476.37	8,476.37	—	6,898.62	
Interest	—	—				
Contingency	—	—				
Total expenditure	6,375.41	8,476.37				
Aggregate outturn (PI-1)						133.0
Composition (PI-2) variance						81.4
Contingency share of budget						0.0

Data for year = 2016/2017

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	312.1	368.9	292.4	76.5	76.5	26.2
Health and Medical Services	6,882.5	5,374.8	6,449.0	−1,074.2	1,074.2	16.7
Health Service Improvement	994.0	1,929.1	931.4	997.7	997.7	107.1
Allocated expenditure	8,188.56	7,672.82	7,672.82	0 0	2,148.39	
Interest	—	—				
Contingency	—	—				
Total expenditure	8,188.56	7,672.82				
Aggregate outturn (PI-1)						93.7
Composition (PI-2) variance						28.0
Contingency share of budget						0.0

Data for year = 2017/2018

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	971.3	3,133.4	1,308.9	1,824.5	1,824.5	139.4
Health and Medical Services	7,823.1	7,659.0	10,542.3	−2,883.3	2,883.3	27.3
Health Service Improvement	832.3	2,180.4	1,121.6	1,058.8	1,058.8	94.4
Allocated expenditure	9,626.72	12,972.76	12,972.76	0.0	5,766.6	
Interest	—	—				
Contingency	—	—				
Total expenditure	9,626.72	12,972.76				
Aggregate outturn (PI-1)						134.8
Composition (PI-2) variance						44.5
Contingency share of budget						0.0

Results Matrix

Year	for PI-1.1 Total Expenditure Outturn	for PI-2.1 composition variance	for PI-2.3 contingency share
2015/2016	133.0%	81.4%	
2016/2017	93.7%	28.0%	0%
2017/2018	134.8%	44.5%	

St. Paul's Millennium Medical College and Hospital

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	65.5	81.2	101.7	−20.4	20.4	20.1
Medical Service	395.0	652.1	613.4	38.7	38.7	6.3
Research and Development	70.9	91.9	110.1	−18.2	18.2	16.5
Allocated expenditure	531.37	825.17	825.17	0	77.31	
Interest	—	—				
Contingency	—	—				
Total expenditure	531.37	825.17				
Aggregate outturn (PI-1)						155.3
Composition (PI-2) variance						9.4
Contingency share of budget						0.0

Data for year = 2016/2017

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	72.4	115.2	85.2	30.0	30.0	35.2
Medical Service	776.7	860.5	914.6	−54.1	54.1	5.9
Research and Development	115.6	160.2	136.1	24.1	24.1	17.7
Allocated expenditure	964.60	1,135.99	1,135.99	—	108.27	
Interest	—	—				
Contingency	—	—				
Total expenditure	964.60	1,135.99				
Aggregate outturn (PI-1)						117.8
Composition (PI-2) variance						9.5
Contingency share of budget						0.0

Data for year = 2017/2018

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Management and Administration	716.9	706.0	795.3	−89.3	89.3	11.2
Medical Service	330.2	464.2	366.3	97.9	97.9	26.7
Research and Development	158.6	167.3	176.0	−8.6	8.6	4.9
Allocated expenditure	1,205.76	1,337.52	1,337.52	0.0	195.8	
Interest	—	—				
Contingency	—	—				
Total expenditure	1,205.76	1,337.52				

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Aggregate outturn (PI-1)						110.9
composition (PI-2) variance						14.6
contingency share of budget						0.0

Results Matrix

Year	for PI-1.1 Total Expenditure Outturn	for PI-2.1 composition variance	for PI-2.3 contingency share
2015/2016	155.3%	9.4%	
2016/2017	117.8%	9.5%	0%
2017/2018	110.9%	14.6%	

PI-2.2 Health

Health Sector

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	378.2	478.6	502.9	−24.3	24.3	4.8
Goods and Services	5,077.7	3,953.9	6,751.0	−2,797.0	2,797.0	41.4
Fixed Assets and Construction	535.0	2,268.3	711.3	1,557.1	1,557.1	218.9
Miscellaneous Payments	384.5	1,775.5	511.2	1,264.2	1,264.2	247.3
Total expenditure	6,375.41	8,476.37	8,476.37	0.0	5,642.6	
Composition variance						66.6

Data for year = 2016/2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	553.4	834.3	518.6	315.7	315.7	60.9
Goods and Services	6,510.4	4,868.8	6,100.4	−1,231.6	1,231.6	20.2
Fixed Assets and Construction	1,119.7	1,897.7	1,049.1	848.5	848.5	80.9
Miscellaneous Payments	5.1	72.1	4.7	67.3	67.3	1,421.7
Total expenditure	8,188.56	7,672.82	7,672.8	0.0	2,463.2	
Composition variance						32.1

Data for year = 2017/2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	799.8	1,053.5	1,077.8	−24.3	24.3	2.3
Goods and Services	7,565.4	7,420.7	10,195.0	−2,774.3	2,774.3	27.2
Fixed Assets and Construction	1,253.2	2,701.3	1,688.7	1,012.6	1,012.6	60.0
Miscellaneous Payments	8.3	1,797.3	11.2	1,786.0	1,786.0	15,914.3
Total expenditure	9,626.72	12,972.76	12,972.8	0.0	5,597.2	
Composition variance						43.1

Results Matrix

Year	Composition variance
2015/2016	66.6%
2016/2017	32.1%
2017/2018	43.1%

St. Paul's Millennium Medical College and Hospital

Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	142.0	185.0	220.5	−35.5	35.5	16.1
Goods and Services	111.7	169.3	173.5	−4.2	4.2	2.4
Fixed Assets and Construction	277.7	470.9	431.2	39.7	39.7	9.2
Total expenditure	531.37	825.17	825.17	0.0	79.5	
Composition variance						9.6

Data for year = 2016/2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	244.7	315.9	288.2	27.6	27.6	9.6
Goods and Services	229.5	371.1	270.2	100.9	100.9	37.3
Fixed Assets and Construction	490.4	443.8	577.5	−133.7	133.7	23.2
Miscellaneous Payments	—	5.2	0.0	5.2	5.2	-
Total expenditure	964.60	1,135.99	1,136.0	0.0	267.5	
Composition variance						23.5

Data for year = 2017/2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	357.9	440.7	397.0	43.7	43.7	11.0
Goods and Services	235.5	261.9	261.3	0.6	0.6	0.2
Fixed Assets and Construction	611.6	629.4	678.5	−49.0	49.0	7.2
Miscellaneous Payments	0.7	5.4	0.8	4.7	4.7	590.9
Total expenditure	1,205.76	1,337.52	1,337.5	0.0	98.0	
Composition variance						7.3

Results Matrix

Year	Composition variance
2015/2016	9.6%
2016/2017	23.5%
2017/2018	7.3%

Appendix 2: List of stakeholders interviewed

Name	Organization	Position	Telephone	Email
Tikue Anbessa Hospital				
Selamawit Abreha	Tikue Anbesa Hospital	Budget & Finance	0911981220	Selaminaab4@gmail.com
Asegedech Abate	Tikue Anbesa Hospital	Managing Directore	0944331469	Asegedech2013@gmail.com
Genet Kumsa	Tikue Anbesa Hospital	Property and Admin Head	0969858019	Kumsagenet92@gmail.com
Addis Ababa Science and Technology University				
Yatew Worku	AASTU	Finance Director	0919782367	yatewworku@gmail.com
Sisay Mengistu	AASTU	Property	0913685283	Mengistu-sisay@gmail.com
Million Abera	AASTU	Audit Director	0929297954	Yona4million@gmail.com
Araya Bizuayehu	AASTU	Procurement Director	0911434757	Arayabi07@gmail.com

Annex 8: Gender Responsive Budgeting Pilot

Background

1. The Federal Government of Ethiopia began working toward mainstreaming GRB into PFM more than a decade ago, with assistance from development partners, mainly UN Women and UNICEF. The government, with assistance from development partners, developed a training manual in August 2012 as well as a national guideline on GRB in November 2012. So far, training and capacity building for sector BIs have been provided on how to incorporate gender responsiveness into the planning, budget formulation, and preparation phases. Nonetheless, no concrete output has been achieved in this direction except the training programs. It is important to note that the country's PFM legal framework makes provision for the inclusion of gender issues into the planning and budgeting process, which is yet to be implemented in the processes.

No.	Pillar	Disaggregation of data required	Responses/information gathered
1	**Pillar II. Transparency of public finances** PI-9 Public access to fiscal information	Segregated data reports from the Financial Transparency and Accountability on access to information to women	No. There are no such reports.
		Information, if any, on how many women attend the open public hearings on budgets and to what extent their questions or needs were considered and addressed	Yes. Information is available that women attend the public hearings but not on how many women attend nor to what extent their questions and needs are considered.
2	**Pillar IV. Policy-based fiscal strategy and budgeting** PI-15 Fiscal strategy PI-15.2 Fiscal Strategy adoption PI-17 Budget preparation process PI-17.2 Guidance on budget preparation	Does published fiscal strategy include quantitative fiscal goals and qualitative objectives from GEWE?	No. There is also no published fiscal strategy. However, GTP II provides quantitative data on gender parity in the education sector and the set quantitative target. The strategy document also mentioned targets on certain health indicators including prenatal and postnatal care coverage. The GTP II document indicated gender elements in other sectors as well. GTP provides quantitative targets to increase women's roles in political leadership and decision making.
		Does the legal framework for public finance and budgeting include specific provisions related to gender issues or gender budgeting?	Yes. Article 11 of the Financial Administration Proclamation No. 970/216 stipulated that the format for the Macroeconomic and Fiscal Framework and annual budget preparations and submissions to contain gender issues.
		Does the guidance on budget preparation request for breakdown of outputs/activities and their budgets by gender and to what extent is that complied with?	The BCC requires that budget submissions include targets and indicators on gender. The BCC requests are not complied with yet.

No.	Pillar	Disaggregation of data required	Responses/information gathered
			The sector development plans generally contain targets by gender. As a result, annual budgets of the visited organizations (MoH and MoE) contain targets by key indicators which are disaggregated by gender. That said, resources are not allocated by gender to achieve the set targets. Some of the key indicators in the education sector (ESDP): • Share of female enrolment in undergraduate programs (from 32% to 45%) • Share of female enrolment in undergraduate science and technology programs (from 28% to 45%) • Percentage of female teaching staff (12% to 25%) • Number of students with special educational needs (from 1,000 to 3,000) • Gross enrolment ration of students from emerging regions (2.5% to 5%)
		Is gender equality incorporated into overall budget guidelines (budget call and budget manual) and directives from the MoF?	No. The overall budget guidelines such as the budget manual, budget directive, and BCC do not incorporate gender equality. However, the Gender Directorate of the MoF has prepared gender budgeting guidelines and a training manual with the support of UN Women and provided training to the federal and regional bureaus and the Parliament's Standing Committee. The gender budgeting tracking tool is also under development and will be used by the Budget and Accounts Directorates. A toolkit to be used by the Parliament Standing Committee has also been developed.
		Do implementing entities prepare their annual action plan and budget report as per the guidance provided on gender segregation?	No. Presently, the BCC (and ceilings) issued by the MoF is not gender sensitive. It does not outline a clear framework for allocating funds specifically for gender-related issues even though Pillar 7 of GTP II is devoted to women, children, and youth. Since funds are not allocated with a gender perspective, both the annual action plans and budget execution reports provide

No.	Pillar	Disaggregation of data required	Responses/information gathered
			very little or no information on planned and actual expenditure in relation to gender. That said, both the Federal Ministries of Education and Health incorporate KPIs which are gender sensitive; for instance, the number of girls expected to be enrolled in schools and provision of maternal health, AIDS/HIV care, and so on. However, performance is monitored and reported but data are not disaggregated. The Federal Ministry of Education has recently produced a six-month gender report (for EFY 2011 - from July 8, 2018 to January 8, 2019). The following are the key initiatives reported: • Another project with support from the Canadian Government and Plan International nongovernmental organization amounting to Can$8 million for training on maternity care for women. • Overall support on gender equality from the federal government budget. • The Gender Directorate at the MoE reviewed the EFY 2011 plan of all departments under the ministry to verify whether gender issues were prioritized. • Manuals were developed on gender and education with support from development partners and there was training on gender budgeting. • The global outreach project provided US$6,300 in financial support to 100 female university students. • Life skill training to female students 5–8 grades. • Awareness training in the form of workshop and forums—mainly of school and surrounding sexual harassment, promoting of anti-sexual harassment movements at white ribbon day and on women forum meetings. • Assessments were conducted on the extent of application of gender budgeting.

No.	Pillar	Disaggregation of data required	Responses/information gathered
			• Women teachers' capacity development activities, such as how to provide effective teaching and student skills development, among others. • Establishment of day care centers for women staff of the MoE. • Development of guidelines on gender club formations. The team visited the AAU and St Paul's Hospital. Both institutions indicated that their annual action plans and budget execution reports are not gender responsive. Nonetheless, there are some disaggregated data, especially on staff numbers. St Paul's has a total of 3,016 staff out of which 1,700 are female, representing 56%, and 1,316 are males. St Paul's Hospital has a medical facility; 60% of the student population are females while the remaining 40% are males. The assessment concludes that except for the development of the GRB training manual and guidelines and the provision of training, not much has been achieved in terms of actual implementation of GRB.
		Integrated and reflected gender equality and equity government commitments on a budget speech	No. The budget speeches of EC 2010 and EC 2011 (FY2016/2017 and 2017/2018) do not include any issues on gender.
3	PI-18 Legislative scrutiny of budgets PI-18.1 Scope of budget scrutiny	Does the scope of budget scrutiny include the budget allocated for gender?	No, it does not.
		To what extent are the Women, Children, and Youth Standing Committees in parliaments and regional councils involved in analyzing the budget from a gender perspective?	The Women, Children, and Youth Standing committees in Parliament do little in terms of reviewing and analyzing the budget from a gender perspective.
		To what extent are their feedback considered in revision of draft plans and budget?	No feedback is considered.
4	**Pillar VII. External scrutiny and audit** PI-30 External audit	Are gender-based performance audits conducted?	No, specific gender audit was conducted by OFAG during 2008, 2009, and 2010. The OFAG 2010 report on consolidated

No.	Pillar	Disaggregation of data required	Responses/information gathered
	PI-30.1 Audit coverage and standards		financial statement of the federal government indicated that it has observed that Ministry of Labour Affairs does not have a guidance or policy which ensures women's participation in the labor union leadership as well as membership.
		If yes, for which sectors was it conducted and how were the findings used to strengthen programs of sectors?	

Other relevant information

Overview of Gender Responsive Budgeting at the MoE

1. Gender at Planning and Budget Stage

1.1. The Growth and Transformation plan (GTP II)

1. GTP II provides quantitative data on gender parity in the education sector and the set quantitative target. The strategy document also mentioned targets on certain education and health indicators including prenatal and postnatal care coverage. The GTP II document indicated gender elements in other sectors as well. GTP provides quantitative targets to increase women's roles in political leadership and decision making.

1.2. Education Sector Development Plan

2. The MoE has developed the Education Sector Development Program (ESDP) which covers the period from 2015/2016 to 2019/20. The ESDP addressed gender as a cross-cutting issue. Most of the performance indicators in the ESDP are disaggregated by gender. Some of the examples are listed in the table.

Table A8.1. KPIs in the ESDP

KPIs	Rate of KPIs at the time of ESDP development	Target anticipated to achieve by the end of the ESDP period
Share of female enrolment in undergraduate programs	32%	45%
Share of female enrolment in undergraduate science and technology programs	28%	45%
Percentage of female teaching staff	12%	125%
Number of students with special educational needs	1,000	3,000
GER of students from emerging regions	2.5%	5%

3. The ESDP also indicated revision of curriculum content at the federal and regional levels as an action item to improve the gender responsiveness of the curriculum.

1.3. Gender in annual budget preparation

4. The annual budget for EFY 2011 (2018/2019) refers to GTP II and the ESDP as a guiding document for the preparation of the annual budget. The budget document provides the target rates to be achieved during the budget year for key indicators which are disaggregated by gender. Under the strategic goal on the equitable and inclusive teachers' training services, a Gender Parity Index[46] has been set as a target:

- Preschool (from 0.95 to 0.99)
- Primary school (from 0.90 to 0.98)
- Secondary school (Grade 9–10) (from 0.90 to 0.98)
- Secondary school (Grade 10–12) (from 0.83 to 0.98)

[46] Gender Parity Index measures the relative access to education of male and female, on the participation of teachers in preschools.

5. The annual budget contains activities for the development of girls' club guidance and to ensure school development activities are gender inclusive. The target for the annual budget on education coverage is disaggregated by gender. The budget document indicates the current rate and the rate to be achieved during the budget year. The targets are classified by preschool, primary, secondary, and higher education level. The following is example of the target for preschool enrolment.

- Current: 38.9 percent girls; 40.8 percent boys
- Target: (female 72 percent; male 73 percent)

2. Performance Reports

6. The performance evaluation report of the education and training sector on GTP II has been reported in EFY 2010 (2017/2018). The performance report provides disaggregated data by gender. The report shows that the participation of women in receiving professional development program is very low (less than 25 percent) compared with men teachers.

7. The EFY 2010 (2017/2018) nine-month budget execution report presented to Parliament (Issued May 8, 2018) provides performance information disaggregated by gender. The report indicated the challenges faced to

a. Ensure gender equity in terms of outreach and enabling female teachers for leadership and

b. Provide capacity development support to female teachers at all levels.

8. The report indicated that women leadership at primary school is 9 percent and at secondary schools is 4 percent; the MoE plans to increase it to 20 percent in 2011.

9. The six-month performance report of EFY 2011 (2018/2019) provides performance information for some of the issues disaggregated by gender. For example, it provides school enrolment plan and actual performance by gender (also by region). The report contains also a separate section on women, children, and youth.

10. A gender assessment report has been issued by the Directorate of Women, Children, and Youth Affairs (of the MoE). The assessment confirmed the accomplishment of gender-based action plans by the MoE. The report details the type of gender-related activities including gender-based training, awareness creation workshops conducted, the assessment of the performance of certain procedures including the application of GRB, the gender inclusiveness of the recruitment process, the extent that women teachers are supported and gender-based pedagogy is implemented, the preparation of girls' club manuals, and the establishment of a day care center within the MoE premises for women staff members. The document does not provide information about the performance of the indicated activities in comparison to the annual budget or strategic plans or in terms of percentage of accomplishment.

Overview of the GRB at the MoH

11. According to the Planning and Budget head of MoH, the budget guideline does not specifically dictate or mention GRB but some of the indicators are by default gender based. Some of the 15 major health sectors are basically identifiable by gender. Maternal service is one of them. Resource mapping is linked to these major indicators. They said that their M&E data are disaggregated by gender.

12. According to the planning and budgeting team of the MoH, there is strong community participation in the implementation of health sector action plans at the service delivery level. A public forum is conducted at the facility level once every quarter. A tool called Community Score Card is used

to track progress. The purpose of the forum is to ensure public engagement in service delivery. There is also a national-level public forum to attract public participation in health sector strategy implementation.

13. In addition,

- A pregnant women forum is conducted monthly;
- There is a community-based network where five people are a member of one team, referred to as 'Health Development Army'. People meet every week; and
- More than 70 percent of the participants in the forum are women.

14. The MoH expects that the Women Affairs Committee at Parliament will conduct more reviews of the annual budget in the context of gender.

15. A policy is under development at the MoH on balancing the participation of women in policy decision making. The internal audit team of the MoH indicated that they did not conduct a performance audit on gender. However, the Gender Directorate at the MoH conducted a gender audit (copies were not available for our review).

Planning and budgeting

16. The woreda-based health sector annual core plan for EFY 2011 (2018/2019), which is part of the Health Sector Transformation Plan, contains information on key health services. There is no specific disaggregation of plan by gender. However, some of the services are identifiable for a specific gender. Some of them include maternal health, antenatal, and neonatal health care regional health services. Other common health services including for HIV are not disaggregated by gender. The annual plan indicated that a gender audit will be carried out. It is not clear whether the gender audit includes the review of the composition of women in decision making, employment, and leadership.

Performance Reports

17. The Health Sector Transformation Plan annual performance report of 2015/2016 provides information on the intervention in gender mainstreaming in the health sector. It indicated that a gender mainstreaming manual has been developed and is in use at the federal and regional levels. The document only provides disaggregated performance data for a few health services.

18. The Annual Health Sector Performance report for EFY 2010 (2017/2018) contains a section on gender, youth, and people with disability. The report indicated the development and distribution of an anti-gender-based violence manual to regions and colleges. Other than those health services which can be easily identifiable by gender, the report does not generally provide gender-disaggregated information.

19. Key information about the education sector in Ethiopia:

- Primary and secondary
  - Number of students in the country - 26,481,841
  - Number of teachers - 583,461
  - Number of schools and technical schools - 38,241
  - Private and government training institutions - 1,546

    - Trainers - 20,771
    - Trainees: regular and short term - 1,443,344
- Higher education
    - Students - 895,675
    - Teachers - 30,319
    - Number of universities accounting to the MoE - 46
- Higher education: private - 130