THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
THE FEDERAL PFM PERFORMANCE REPORT

(Final report of October 23, 2007)

DFC

This project is financed by the European Commission (EC) and by the Canadian International Development Agency (CIDA), and implemented by DFC SA, Barcelona, SPAIN in conjunction with the HELM Corporation (UK)

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CURRENCY AND EXCHANGE RATES

Currency unit = Ethiopian Birr (ETB)

€ 1 = ETB 12.935 (As of October 23, 2007)
US$ 1 = ETB 9.0856 (As of October 23, 2007)

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

Ethiopian Fiscal Year (EFY)	Gregorian (European year Equivalent)
1994	2001/02
1995	2002/03
1996	2003/04
1997	2004/05
1998	2005/06
1999	2006/07

ACRONYMS AND ABBREVIATIONS

AD	Administrative Department
ADB	African Development Bank
AFRITAC	IMF African centre (regional centre) for technical assistance
BI	Budget Institutions (ministries, agencies, institutions, and other budgetary units)
BOFED	Regional Bureau of Finance and Economic Development
BS	Budget Support
CBE	Commercial Bank of Ethiopia
CAD	Central Accounts Department
CFAA	Country Financial Accountability Assessment
CPA	Central Personnel Agency
CPAR	Country Procurement Assessment Report
CG	Central Government
CIDA	Canadian International Development Agency
COFOG	Classification of Function of Government
CSRP	Civil Service Reform Program
DEMFAS	Debt Money and Financial Analysis System
DSA	Decentralized Support Activity Project
EC	European Commission
ECA	Ethiopian Customs Authority
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Program
EU	European Union
FA	Fiduciary Assessment
FD	Finance Department
FDRE	Federal Democratic Republic of Ethiopia
FIRA	Federal Inland Revenue Authority

FPPA	Federal Public Procurement Agency
FY	Financial Year or Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GNI	Gross National Income
HIPC	Highly Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HRD	Human Resource Department
ID	Inspection Department
IDA	International Development Agency
IMF	International Monetary Fund
IMIS	Integrated Management Information System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
MDA	Ministries, Department and Agencies
MDG	Millennium Development Goals
MEFF	Macroeconomic and Fiscal Framework
MEPD	Ministry of Economic Planning and Development
MOFED	Ministry of Finance and Economic Development
NAO	National Authorizing Officer
NBE	National Bank of Ethiopia
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
OFAG	Office of the Federal Auditor General
ORAG	Office of the Regional Auditor General
PAC	Public Accounts Committee
PASDEP	A Plan for Accelerated & Sustained Development to End Poverty
PBS	Protection of Basic Services
PE	Public enterprises
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
PIP	Public Investment Program
PM	Prime Minister
PIP	Public Investment Program
PPESA	Privatization and Public Enterprises Supervising Agency
PRSP	Poverty Reduction Strategy Program
PSCAP	Public Sector Capacity Building Program
SCOPE	Cabinet Standing Committee on Public Enterprises
SDPRP	Sustainable Development & Poverty Reduction Program
SIGTAS	Standard Integrated Government Tax Administration System
SME	Small and Medium Enterprises
SN	Sub-National
TIN	Taxpayer Identification Number
TOR	Terms of Reference
UNDP	United Nations Development Program
VAT	Value Added Tax
WB	World Bank

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Foreword and acknowledgements

The original PEFA evaluation for Ethiopia at the Federal level was initiated by a joint team of international and local experts during the last quarter of 2006. This original evaluation was interrupted due to the sudden departure of the team leader from the field. During this original evaluation no concrete results had been achieved and no indicator (and/or no dimension) had been scored although most of the days foreseen in the contract had been used by the team.

The present PEFA evaluation is based essentially on an 18-day field work in the period of March 15th through April 3rd 2007 (20 days had remained after the first attempt to carry out the exercise of which 2 days were travel days) carried out by Giovanni Caprio who replaced the original team and who drafted this report. The information provided in the present report comes mainly from official documents and communications as well as from working sessions with qualified counterparts within the Ministry of Finance. The latter was critical for the elaboration of this report. In addition, earlier analytical reports have been used. For many indicators, due to the time constraint, the rating could not benefit from triangulation of information, based on sources from different departments of the Ministry of Finance, line ministries, autonomous agencies and from outside the public sector (for taxation or procurement issues for instance). For other indicators, the rating has greatly benefited from information and data provided by representatives of the EC, CIDA, the World Bank and the IMF.

The author is particularly grateful to the head of the Budget Consolidation Department of the Ministry of Finance and Economic Development (MOFED), Ato Melaku Kife, the Head of the Central Accounts Department (CAD), Ato Degu Lakew and the Head of Treasury, Ato Getachew Negera who have provided a great deal of the information for the report and have been constantly available and accessible during the field work.

The author also expresses his gratitude to the European Commission for its funding and support for this work, to CIDA for its logistical support, to MOFED, to the EC and to the PEFA Secretariat for their detailed and critical review of the preliminary draft of the report, and to Rupert Bladon and Andrew Kettle- well of Helm Corporation Limited for their input to the report.

Summary assessment

The good performance of institutions and systems of Public Finance Management (PFM) makes it easier for governments to reach the three interrelated objectives of budgetary management:

- Aggregate fiscal discipline;
- Strategic allocation of resources in accord with the priorities of public policies;
- Efficient service delivery.

This report presents an evaluation of PFM performance in the Federal Democratic Republic of Ethiopia based on an international reference framework (PEFA). With the use of high-level indicators, this framework contemplates six critical dimensions:

(i) Credibility of the budget;
(ii) Comprehensiveness and transparency;
(iii) Policy-based budgeting;
(iv) Predictability and control in budget execution;
(v) Accounting, recording and reporting;
(vi) External scrutiny and audit.

In addition donor practices have also been taken into consideration.

In conformity with the PEFA methodology this report does not include detailed recommendations. Notwithstanding, after the discussions with the European Commission (regarding the outcome of the exercise), the Government of the Federal Democratic Republic of Ethiopia with the assistance of the donor community is welcome to elaborate a detailed action plan (of priority actions) with the objective of improving PFM performance. This would be an on-going effort together with the regular update of the assessment and the measurement of progress made.

Integrated assessment of PFM performance

Credibility of the budget

The use of the PEFA performance indicators to assess the credibility of the federal budget indicates that the overall execution of expenditures during the three EFY 1995-1996-1997 (2002/03-2003/04-2004/05), the last years for which data are available, was excellent and actual amounts spent were not materially different from budgeted amounts. Nevertheless, despite this positive element, which appears to contribute to budget credibility, there were significant changes in the original composition of primary expenditures. On the other side, aggregate federal revenue out -turn compares well with federal budgeted revenues and there are no concerns about expenditure arrears.

Comprehensiveness and transparency

The use of the PEFA performance indicators to assess the budget comprehensiveness & transparency shows that the budget is based on functional classification (not sub-functional) and the information included in the budget documentation is of good quality. Besides the financial activities of PE, there are government operations (particularly from various funds and from the pension entity), which are not included in the federal budget but this is allowed by law. Extra budgetary expenditures represented in fact more than 10% of total expenditures in the three-year period 2002/03-2004/05. This weakens comprehensiveness and transparency of the budget and is a serious concern. The Fiscal relations between the Federal Government and the regions are transparent while the former carries out a satisfactory oversight of PE through the Privatization and Public Enterprises Supervising Agency. The public has practically no access to key fiscal information but a culture of information sharing is not one that is, as yet, highly developed in Ethiopia.

Policy-based budgeting

The use of the performance indicators for policy-based budgeting shows that the annual budget process is well ordered with the existence of a budget calendar generally adhered to, and a budget circular issued to budgetary institutions. A rolling three-year Macroeconomic and Fiscal Framework (MEFF) with main economic and fiscal aggregates is elaborated yearly. A Public Investment Program (PIP) covering capital expenditures over a three-year period is also elaborated as a second stage of the Planning Cycle of the budget. Foreign Debt Sustainability Analysis is carried out yearly by the Ethiopian authorities and costed sector strategies for at least 50% of primary expenditures have been prepared. Although there has been an effort to link investment budgets and forward recurrent expenditure estimates since the elaboration and implementation of the Sustainable Development & Poverty Reduction Program (SDPRP), Ethiopia’s second-generation PRSP, the two processes of recurrent budgeting and investment budgeting are separated process in practice.

Predictability and control in budget execution

Legislation for most major taxes is comprehensive and clear with taxpayers having access to up-to-date information on tax liabilities[1]. A tax appeal system also exists. Taxpayers have a Taxpayer Identification Number (TIN) and are registered in a database system. Penalties for non-compliance exist and tax audits are performed

Cash flow management (and forecasting) for expenditures at the Federal level was introduced in 2004/05 with technical assistance from the IMF. The system is not fully established. Federal budget institutions are provided reliable information on their cash flow availability monthly, although this is done when the month has already begun.

Data on foreign debt are complete, of good quality, and reconciled formally once a year. Domestic debt data do not include the domestic debts of PE. Therefore these data are not as comprehensive as the ones on foreign debt. The Department of Credit Administration issues a detailed report on (solely) foreign debt annually.

Payroll controls and controls in procurement are satisfactory while control for non-salary expenditure shows some weaknesses. Internal audit has improved over recent years although does not share its work with the Federal Auditor General.

Accounting, recording and reporting

Reconciliation of all Treasury controlled accounts is carried out in a timely fashion while the quality of in-year budget reports and annual financial statements is satisfactory. Delays in submitting the annual financial statements to the Office of the Federal Auditor General (OFAG) have been significantly reduced. The financial statement of EFY 1998 (2005/06) are closed and have been submitted to the OFAG (April 2007). The annual consolidated government financial statements lack information on assets and liabilities.

External Scrutiny and audit

Audits performed by the Office of the Federal Auditor General (OFAG) cover, on one level at least 50% of total national expenditure, expenditure by federal bodies plus block grant payments to the country's regions. However, there has been some debate about the jurisdiction of the Federal Auditor General.

[1] The main Laws, Proclamations and Regulations for PFM are presented in following Box 1.

Audits of the OFAG generally adhere to INTOSAI auditing standards and focus on significant issues. There is currently less than a one year lag in auditing the Federal Government accounts and this delay has been significantly reduced in the last five years. The OFAG forwards the audited accounts on time to the House of People's Representatives and these are reviewed by the Public Accounts Committee (PAC) which is now headed by a member of the opposition. The PAC carries out its review within two months of receipt of the reports. As a result in-depth hearings are conducted by the legislature but these are not systematic due to limited capacity and time constraints. The PAC looks at recommendations but in practice the executive does not act them upon. There is also follow up by the PAC through the OFAG but in practice this is limited.

The *Budget and Finance Standing Committee* carries out a review of the recommended budget. There is no evidence of existing written procedures for the review. Overall the legislature has about one month to review the recommended budget. Supplementary budgets (or in-year budget amendment) can be authorized by the House of Peoples' Representatives on the recommendation of the Council of Ministers. The rules that allow such amendments are rudimentary.

Donor practices [Information not available for D-1 and D-3]

Implications for budgetary outcome

<u>Aggregate fiscal discipline</u> is well ensured by the ability of the federal government to adequately forecast total primary expenditures and revenues, and to keep expenditure arrears under control. To some limited extent, timeliness and quality of in-year budget reporting help as well. Despite these positive elements, it should be pointed out that the relative high amount of extra-budgetary funds and the separation in the processes of budgeting for investment and recurrent expenditure have a negative impact on aggregate fiscal discipline. The lack of fiscal monitoring of AGAs by the Central Government has the same negative impact.

<u>Resources are allocated strategically</u> to the extent the annual budget process is orderly and an integrated top-down and bottom up process with a good budget classification and good information in the budget documentation. However because of significant changes in the original composition of primary expenditures of budget entities at the federal level, efficiency in the allocation of resources is greatly reduced. Adding to this is the absence of useful links between investments and forward expenditure estimates, and the weak legislative scrutiny of the draft budget law. Moreover, but to a minor extent, the absence of a multi-year fiscal forecast in functional classification contribute to this inefficiency.

<u>Efficiency in service delivery</u> is seriously weakened by ineffective predictability in the availability of funds for commitment of expenditures. Procurement systems,

internal control for non-salary expenditure, internal and external audit systems have the same negative impact.

In the addition to the above, it should be mentioned that the integrity of fiscal information is partially compromised by the fair quality of yearly financial statements and the weakness in external audit.

In conclusion, it can be stated that the weakness in PFM system that have been identified are likely to impact negatively on the country's development and on the reduction of poverty. This is all the more important therefore to continue with the reforms that have started many years ago. In this context the government owned and government led reform program can help deliver the reforms needed to improve on aspects reported above and to reach each budgetary outcome, given time, resources and partner support.

Prospect for reforms

Current reforms are encapsulated in the Expenditure Management and Control Program (EMCP), which is now multi-sector Public Sector Capacity Building Program (PSCAP), a $400 million program supported by a number of donors paying into a pooled fund. There has been a fairly successful track record of reform in Ethiopia, building on a strong culture of public service and now driven by colossal commitments of government empowerment through decentralization. Leadership is high, and well-articulated support modalities exist through PSCAP (although bottlenecks, someone on the donor side, need to be removed so that funding can be properly mobilized).

Whilst the implementation of EMCP across its various sub-themes has historically been uneven, much recent success has been achieved in the roll-out of budgeting, accounting and FIS reforms country-wide via the Decentralization Support Activity (DSA) project. This is soon to come to an end and a challenge will be how to manage the transition and maintain reform effort. Government leadership in this area is high, but the capacity to take forward a coordinated reform program across a number of areas is one which may well need ongoing partner support for some while.

Nevertheless, outside of DSA, Ethiopia has made recent progress in implementing reforms relating to procurement, cash management and internal audit, and is now planning to embark on the implementation of an Integrated Management Information System (IMIS).

Taken together, this well-articulated, government owned and government led reform program can help deliver the reforms needed to improve on aspects reported on in this report, given time, resources and partner support.

PEFA PERFORMANCE INDICATORS IN THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA[2]

	A. PFM OUT-TURNS: Credibility of the budget	Scoring
PI-1	Aggregate expenditure out-turn compared to original approved budget	**A**
PI-2	Composition of expenditure out-turn compared to original approved budget	**D**
PI-3	Aggregate revenue out-turn compared to original approved budget	**B**
PI-4	Stock and monitoring of expenditure payment arrears	**A**
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	**Scoring**
PI-5	Classification of the budget	**B**
PI-6	Comprehensiveness of information included in budget documentation	**B**
PI-7	Extent of unreported government operations	**D+**
PI-8	Transparency of Inter-Governmental Fiscal Relations	**B**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	**C+**
PI-10	Public Access to key fiscal information	**D**
	C. BUDGET CYCLE	**Scoring**
	C (i) Policy-Based Budgeting	
PI-11	Orderliness and participation in the annual budget process	**A**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**C**
	C (ii) Predictability & Control in Budget Execution	
PI-13	Transparency of taxpayer obligations and liabilities	**B**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**C**
PI-15	Effectiveness in collection of tax payments	**[Not scored]**
PI-16	Predictability in the availability of funds for commitment of expenditures	**D+**
PI-17	Recording and management of cash balances, debt and guarantees	**B**
PI-18	Effectiveness of payroll controls	**B+**
PI-19	Competition, value for money and controls in procurement	**C+**
PI-20	Effectiveness of internal controls for non-salary expenditures	**C+**
PI-21	Effectiveness of internal audit	**C+**
	C (iii) Accounting, Recording and Reporting	
PI-22	Timeliness and regularity of accounts reconciliation	**B+**
PI-23	Availability of information on resources received by service delivery units	(Regional PEFA)
PI-24	Quality and timeliness of in-year budget reports	**C+**
PI-25	Quality and timeliness of annual financial statements	**C+**
	C (iv) External Scrutiny and Audit	
PI-26	Scope, nature and follow-up of external audit	**C+**
PI-27	Legislative scrutiny of the annual budget law	**D+**
PI-28	Legislative scrutiny of external audit reports	**C+**
	D. DONOR PRACTICES	
D-1	Predictability of Direct Budget Support	**[Not scored]**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**C**
D-3	Proportion of aid that is managed by use of national procedures	**[Not scored]**

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

1. Introduction

Background and objectives During its negotiations with the World Bank on the Protection of Basic Services (PBS) modality, the Government of the Federal Democratic Republic of Ethiopia agreed to have a Programme of Public Expenditure and Financial Accountability (PEFA)[3] assessment in 2006 that would build on the Fiduciary Assessment (FA) completed in 2004[4]. It will cover the Federal Government and those regions that were not, or only partially, covered in the first FA[5]. The PEFA exercise is not a conditionality or benchmark to this specific program though. It is rather to be viewed as a diagnostic tool on PFM reforms, the EMCP (Expenditure Management and Control Program) and PSCAP (Public Sector Capacity Building Program) notably[6].

With the objective of preparing this evaluation, the Government of the Federal Democratic Republic of Ethiopia agreed with the Delegation of the European Commission and Canada to the conduct of a review using the PEFA PFM Performance Measurement Framework. This Framework includes this PFM performance report with a set of high-level indicators, which draw on the HIPC expenditure tracking benchmarks, the IMF Fiscal Transparency Code and other international standards.

The main objectives of the current exercise are to:

(i) Create an integrated monitoring framework that allows measurement of the country PFM performance over time;

(ii) Contribute to the government reform process by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success;

(iii) Facilitate harmonised dialogue between Government and donors around a common framework measuring PFM performance.

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[3] PEFA is a multi-agency partnership program sponsored by the World Bank, the International Monetary Fund, the European Commission, the UK's Department for International Development (DFID), the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, the Swiss State Secretariat for Economic Affairs, and the Strategic Partnership with Africa (SPA). In the PEFA website www.pefa.org additional information on the program can be found.

[4] In 2004, the Government of the Federal Democratic Republic of Ethiopia and the Budget Support Donors agreed on the Terms of Reference for a FA that would serve as an input to the Government's Annual Progress Report on the SDPRP. The first FA, covering the Federal Government and 7 regions, was carried out in the last quarter of 2004 and a final draft report was submitted in August 2005.

[5] This present report covers the Federal Government exclusively. A separate PEFA report has been elaborated for seven regions: Afar, Benishengal, Dire Dawa, Gambella, Harar, Tigray and Oromiya

[6] Refer to Section 4 for more details on these reforms

Moreover, the PEFA exercise aims, in the case of the Federal Democratic Republic of Ethiopia, to address weaknesses in PFM (at both the Federal and regional levels) in order to contribute to better implementation of existing reforms.

Process at the Federal level The information needed to measure the PFM performance through the 31 high-level indicators was put together in technical fiches under the coordination of the Budget Consolidation Department of the Ministry of Finance and Economic Development (MOFED) and its Head, Ato Melaku Kife. The process was facilitated thank the help and active participation in the exercise of the Head of the Central Accounts Department (CAD), Ato Degu Lakew and the Head of Treasury, Ato Getachew Negera, and through the active participation of the corresponding entities (ministries, departments, divisions and specialized units). The staff members of the latter were always available for interviews (and/or working sessions)[7] and for providing most of the documentation needed for the exercise. These interviews (and/or working sessions) were extremely useful to check and complete the existing information. MOFED staff has then reviewed the first draft of the PEFA report in great details providing very useful comments.

At the beginning of the assignment, the EC Delegation[8] and CIDA Representatives in Addis Ababa provided detailed input on the organization of the work and on the documentation needed. These suggestions were very useful, allowing the pulling together of a significant part of the documentation needed. The EC has also reviewed the first draft providing useful comments.

The World Bank and the IMF were informed of the exercise and several working sessions took place with these two agencies.

The PEFA Secretariat (World Bank) in Washington DC was informed of the exercise from the beginning. It has then reviewed the final draft of the PEFA and forwarded its detailed and useful comments on October 18th, 2007[9].

Most of the work including the drafting of the preliminary Report[10] was carried out in Addis Ababa, the Federal Democratic Republic of Ethiopia during the field period of March 15th to April 3rd.

[7] These took place on a regular basis during the period of March 16th through April 3rd , 2007
[8] Joris Heeren, the Head of the Economic, Social & Trade Section and Ephraïm Zewdie, the economist. Anouk Rutter also provided basic information on the assignment prior to her departure.
[9] Frans Ronsholt was the key contact at the PEFA Secretariat
[10] Giovanni Caprio from the DFC Group in Barcelona (Spain) is the author of the report and is responsible for its content.

Methodology The methodology of collecting data consisted of following components:

- Putting together the existing documentation on PFM;
- Collecting statistical data for the EFY 1995,1996 and 1997 (2002/03-2003/04- 2004/05);
- Interviews with civil servants at the level of department heads and technicians. Interviews with representatives of development agencies;
- Presentation of the first draft to the Delegation of the European Commission and regional PEFA team members on April 3, 2007.

No interviews or visits were carried out to single PE or autonomous agency.

These activities were carried out in the context of the PEFA PFM Performance Measurement Framework. This methodology is not to evaluate and score different institutions or individuals in charge within the Federal Government. This is rather to buttress the Government's own PFM reform program and identify priorities within the reform agenda.

Structure of the Report Chapter II briefly describes the context of the country, the structure of the public sector and of consolidated public sector operations, and the legal and institutional framework for PFM analysis. Chapter III presents the evaluation of PFM systems, processes and institutions based on the 31 high-level indicators of the PEFA performance framework. Chapter IV describes recent and on-going reforms and main areas for interventions.

Future Steps In conformity with the PEFA methodology this report does not include recommendations. Notwithstanding, after the discussions with the European Commission and CIDA (regarding the outcome of the exercise), the Government of the Federal Democratic Republic of Ethiopia with the assistance of donors is welcome to elaborate a brief action plan (of priority actions) with the objective of improving PFM performance. This would be an on-going effort together with the regular update of the assessment and the measurement of progress made.

2. Country background information

2.1 Economic Context, Development and Reforms

The Federal Democratic Republic of Ethiopia, with a population of 74.8 million (July 2006), is the second most populous country in Sub-Saharan Africa. The Constitution establishes a Federal and Democratic State structure[11]. One of the world's oldest civilizations, the country is also one of the world poorest countries.

[11] *Constitution* (1994), Art 1

At US$130 (2004)[12], Ethiopia's yearly per capita GNI is only about a fifth of the Sub-Sahara African average[13].

Most human development indicators have improved since the country began decentralizing basic service delivery responsibilities—first to regions, in the mid-1990s, and then more recently to local governments. Life expectancy at birth has improved between 1980 and 1990 and then returned to the 1980 level in 2004 due to the AIDS epidemic. Infant mortality rates went down gradually since the 1980s but remain under Sub-Saharan African average and above the average of low-income countries.

TABLE 1: LIFE EXPECTANCY AT BIRTH AND INFANT MORTALITY RATES (1975-1980/1998-2004)

INDICATORS	1975-80	1985-90	1998-04	Sub-Saharan Africa	Low-Income Countries
Life expectancy at birth	42	45	42	46	58
Infant mortality rate[14] (per 1000 live births)	143	131	112	101	79

Source: *Interim Country Assistance Strategy for the Federal Democratic Republic of Ethiopia*, WB Report 35142-ET, May 2006, page 39

Economic growth performance during EFY 1996 (2003/04) and EFY 1997 (2004/05) has been strong and broad-based (Table 2). After a significant drought-induced contraction, real GDP growth was 8.9 percent in 2004/05, following an 11 percent growth rate rebound in 2003/04. The growth rate was projected to be above 10% in 2005/06. Rising oil prices, a freeze in direct budget support, increased demand for imports due to fast economic growth, and an ambitious infrastructure investment program had a negative impact on prices and on the country's current account balance in 2004/05 (Table 2). Terms of trade and the aggregate fiscal deficit were at acceptable levels (Table 2).

[12] According to the Ethiopian authorities, the GNI per capita is about USD 180 in 2007 (MOFED)
[13] *Interim Country Assistance Strategy for the Federal Democratic Republic of Ethiopia*, WB Report 35142-ET, May 2006, page 38
[14] The infant mortality rate is a crucial indicator because it reveals the real status of most fragile individuals in society or in a particular sector of society. The slight increase in the infant mortality rate between 1970 and 1974 helped understand the deterioration of the Soviet Union and allowed to predict its collapse already in 1976. Likewise the slight increase in the infant mortality rate of peoples of Afro-Caribbean origin in the USA is the sign of the failure of racial integration (Sources: Emmanuel Todd, *La chute finale*, Paris 1976 and *Après l'Empire*, Paris 2002)

TABLE 2: ETHIOPIA: BASIC MACROECONOMIC DATA
EFY 1995 (2002/03) – EFY 1997 (2004/05)

INDICATORS	EFY 1995 (2002/03)	EFY 1996 (2003/04)	EFY 1997 (2004/05)	EFY 1998 (2005/06)
GDP at Factor Cost (Real annual change)	-3.3%	11.1%	8.9% (*)	11.6% (*)
Consumer Price Index (End of Period)	23.5%	1.7%	13.0%	6.0%
Terms of Trade (Deterioration -)	-6.5%	-14.8%	10.8% (*)	5.1% (*)
Aggregate Fiscal balance, including grant (In % of GDP)	-8.1%	-5.5%	-6.0%	-5.2%
Current Account Balance in % of GDP (Including Official Transfers)	-2.2%	-5.1%	-9.1%	--
(*) Preliminary				

Sources: IMF Country Report No. 06/122, May 2006, pages 30 &31; IMF Country Report No. 06/159, Table 1

2.2 Development and Reforms

a) Development and poverty reduction strategies

Most donors aligned their support around the country's nationally articulated poverty reduction strategy. The first generation PRS, the Sustainable Development and Poverty Reduction Program (SDPRP) was finalized by the government in 2002[15]. Its core objective was to reduce poverty through enhancing rapid economic growth, while at the same time maintaining macroeconomic stability.

Overall, Ethiopia has performed well in implementing the SDPRP despite experiencing numerous shocks. The Federal Government has significantly increased poverty-targeted expenditures, including transfers of funds to local governments, which have responsibility for basic service delivery. Access to education has increased though there are concerns that improvements in quality

[15] The Federal Democratic Republic of Ethiopia, Ministry of Finance and Economic Development (MOFED): *Ethiopia: Sustainable Development and Poverty Reduction Program*, 2002

have not kept up with the enrollment rise[16]. In addition, access to clean water has also improved[17]. Moreover, the coverage of the roads network has increased[18].

In September 2006, a new five-year second generation PRS, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) was completed by the government and endorsed by the House of Peoples' Representatives[19]. The plan focuses on eight pillars: (i) commercialization of agriculture and promoting much more rapid non-farm private sector growth; (ii) geographical differentiation; (iii) population; (iv) gender; (v) infrastructure; (vi) risk management and vulnerability; (vii) scaling up service delivery to reach the Millennium Development Goals (MDG); and (viii) employment. In addition, there is considerable emphasis on governance, with plans to accelerate empowerment of people by continuing programs of decentralization.

b) Fiscal policy and fiscal development

Past fiscal performance indicates a decreasing aggregate deficit during the period EFY 1995 (2002/03) and EFY 1998 (2005/06) with total revenue and grants not varying very much during the period. Capital expenditures increase significantly reflecting the authorities ‘commitment for the implementation of PASDEP (Table 3).

Current expenditures as well as wages and salaries, and interests on the foreign debt as a percentage of GDP have gone down during the period.

On the financing side, there is a significant decrease in external gross borrowing from the Government and a slight increase in domestic financing. As a result, the net financing decreases from 8.1% of GDP to 5.2% during the period under consideration.

For the medium-term, it is expected for the authorities to develop a fiscal framework which shows how expenditure will be prioritized based on available resources and consistent with the growth strategy[20]. Lower expenditure than in PASDEP to elaborate a fully and realistically financed medium-term fiscal framework is needed. This should allow increasing gradually pro-poor spending and be consistent with the declining level of domestic debt[21].

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[16] The gross primary enrollment rate rose from 64.4% in 2002/03 to 79.2% in 2004/05, though there are concerns that quality improvements have not kept up with the enrollment rise

[17] From 34.1% in 2002/03 to 42.2% in 2004/05

[18] From 31 km per km2 in 2002/03 to 33.6 km per km2 in 2004/05

[19] Ministry of Finance and Economic Development (MOFED): *A Plan for Accelerated & Sustained Development to End Poverty (PASDEP*), 2005/06-2009/10, Volume I, Main Text, Addis Ababa, September 2006

[20] IMF Country Report No. 06/159, May 2006, page 15

[21] *Idem*

TABLE 3: FEDERAL GOVERNMENT BUDGET
EFY 1995 (2002/03) EFY 1998-(2005/06)
(In percent of GDP)

	EFY 1995 (2002/03)	EFY 1996 (2003/04)	EFY 1997 (2004/05)	(Preliminary) EFY 1998 (2005/06)
TOTAL REVENUE & GRANTS	**23.0**	**21.4**	**20.7**	**23.5**
- *Own Revenue*	*16.4*	*16.6*	*16.0*	*18.1*
- *Grants*	*6.7*	*4.8*	*4.7*	*5.4*
TOTAL EXPENDITURE	**29.1**	**24.1**	**25.4**	**28.4**
Current expenditure (*)	19.6	14.6	13.4	13.2
Of which:				
- *Wages & salaries*	*5.8*	*6.3*	*6.0*	*6.9*
- *Interest*	*1.8*	*1.3*	*1.0*	*1.2*
Capital expenditures (*)	9.3	9.9	11.9	14.4
AGGREGATE DEFICIT (Including grants, special programs & unidentified financing)	**-8.1**	**-5.5**	**-6.0**	**-5.2**
AGGREGATE DEFICIT (Excluding grants, including grants, special programs & unidentified financing)	**-14.8**	**-10.2**	**-10.7**	**-10.7**
NET FINANCING	**8.1**	**5.5**	**6.0**	**5.2**
- *External (net)*	*5.7*	*2.9*	*2.5*	*2.1*
- *Domestic (net)*	*2.4*	*2.6*	*3.5*	*3.1*

Sources: Own calculations from IMF Country Report No.06/159, May 2006 and IMF Country Report 06/122, *Statistical Appendix*, May 2006; Own calculations from preliminary data provided by MOFED for 2005/06

(*)Excluding special programs

c) Allocation of resources

Overall, trends in capital expenditures (increasing) and in debt service payments/interests (decreasing) during EFY 1995 (2002/03) and EFY 1997 (2004/05) are emphasized once again (Table 4).

As far as sub-functional items are concerned, an increasing trend is to be seen for Education and Training, Agriculture and Natural Resources, Construction, Transport and communication and to a lesser extent for Health. This is a positive trend to the extent it translates into more effective pro-poor expenditures.

Expenditures for education increased from about 16% of total expenditures to about 20% in the period EFY 1995 (2002/03) - EFY 1997 (2004/05), Agriculture and Natural Resources from 9.03% to 14.40% respectively. These two sub-functional items represented more than one-third of total expenditures in EFY 1997 (2004-05) while about 15% of the latter were spent for Transport and

Communication, and Construction. Health expenditures were relatively low at less than 5% of total expenditures during the period[22].

Expenditures for Defense remained more or less stable in relative terms during the period while expenditures for General Public Services which include the organs of the state and the judiciary represented yearly about 8.0% of total expenditures.

TABLE 4: ACTUAL BUDGETARY ALLOCATIONS BY FUNCTIONS & ACTUAL ALLOCATIONS BY ECONOMIC CATEGORIES
EFY 1995 (2002/03) – EFY1997 (2004/05)

(In percent of total)

I. MAIN SUB-FUNCTIONS	EFY 1995 (2002/03)	EFY 1996 (2003/04)	EFY 1997 (2004/05)
Defense	**11.79%**	**12.19%**	**11.90%**
General Public Services	**7.78%**	**9.04%**	**7.80%**
Agriculture and Natural resources	**9.03%**	**15.57%**	**14.39%**
Transports & Communication	**0.96%**	**1.22%**	**4.77%**
Construction	**8.62%**	**9.72%**	**11.71%**
Education & Training	**15.46%**	**20.64%**	**19.55%**
Health	**4.15%**	**4.33%**	**4.83%**
TOTAL ALL SECTORS	**100%**	**100%**	**100%**
II. MAIN ECONOMIC CATEGORIES	**EFY 1995 (2002/03)**	**EFY 1996 (2003/04)**	**EFY 1997 (2004/05)**
Debt service payments	**6.4%**	**5.33%**	**4.11%**
Capital expenditures	**31.81%**	**40.88%**	**46.90%**
TOTAL ALL CATEGORIES	**100%**	**100%**	**100%**

Sources: Own calculations from IMF Country Report No.06/159, May 2006 and IMF Country Report 06/122, *Statistical Appendix*, May 2006

[22] It should be mentioned that not all the donor aid to the health sector was captured in the budget during the stated period (communication of the MOFED).

d) Non financial Public Enterprises (PE)

The non financial PE sector is composed of about 130 enterprises under the Privatization and Public Enterprise Supervising Agency (PPESA)[23] and three main PE, the Ethiopian Telecommunication Corporation (ETC), the Electric Power Corporation (EPC) the Water Authority, reporting respectively to their competent ministries[24]. About 100.000 people are employed in the PE under PPESA[25].

The PE under PPSA are managed as independent business entities. PPESA represents and acts on behalf of the owner approving or deciding on enterprise plans submitted via boards of directors. It also appoints board of directors, auditors and audit committees. It evaluates performance plans and guides improved system implementations[26].

The PE use their own resources in addition to the loans they get from banks. There is no subsidy from the treasury forwarded to the enterprises. Every year, the Federal Government receives about ETB 400 million from the enterprises as dividend in addition to income tax, value-added tax, and excise tax[27]. Over the past 2-3 years, the enterprises under PPESA have been able to generate a profit before tax of approximately ETB 1 billion, export of approximately ETB 600 million, and sales turnover of ETB 10 billion[28].

e) Decentralization and local governments in the Federal Democratic Republic of Ethiopia

Ethiopia is a Federal State and the *Constitution* of 1994 mandates a federal structure with considerable autonomy to the regions in administrative and fiscal matters. It consists of nine Regions and two City Administrations (Administrative Councils) that are treated as regions[29]. These entities are SN Governments

[23] The 130 non financial PE under PPESA include 19 PE in the agricultural sector, 14 in food processing, 12 in construction, 12 in the metal sector, 10 in chemicals, 8 in textiles, 8 in printing, 7 in beverages, 7 hotels, 6 in transport, 4 in mining, 4 in furniture, 3 in leather and shoes, 2 pharmaceuticals (Source: Communication of PPSA).
[24] Ethiopian Airlines should also be added to this list
[25] Communication of PPESA
[26] *Idem*
[27] *Idem*
[28] *Idem*
[29] The nine (9) regions with their respective public body codes are: Tigray region (431), Afar region (432), Amhara region (433), Oromiya region (434), Somali region (435), Benishangul/Gumuz region (436), Southern Nations, Nationalities and Peoples Region (SNNPR) (437), Gambella region (438), Harari Peoples region (439). The two city administrations are: the Addis Ababa Administrative Council (441) and the Dire Dawa Administrative Council (442).

accountable to their citizens and have wide-ranging revenue and expenditure responsibilities. Most of their resources come from transfers from Federal government via a block grant system. At the centre of the financial management structure in each region is the Regional Bureau of Finance and Economic Development (BOFED) responsible to the Regional Council. BOFEDs are required to prepare annual budgets and accounts of the Regional bureaux and the consolidated accounts of the Region. These have then to be audited by the Regional Auditor General and submitted to the Regional Council.

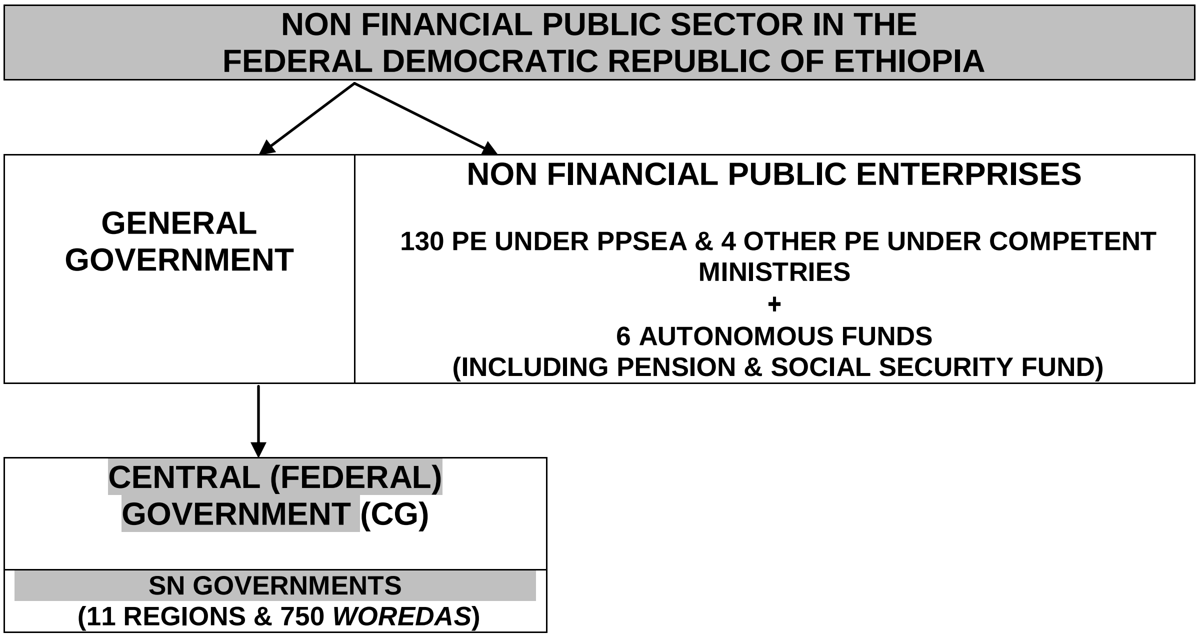
At a lower level there are *woreda* (or district) SN administrations, each representing about 100,000 people with an elected council and a set of sectoral offices. There are currently 750 *woredas*, and the numbers have risen in the last year. Basic service delivery relating to health and primary education is delivered by *woredas*.

Transfers from the federal to the regional level and from the regional to the *woreda* level take place through a system of non-earmarked block grants. It is largely, at least *prima facie,* up to regions and *woredas* to decide over the sectoral distribution and the allocation of funds between recurrent and capital expenditure.

f) The non financial public sector, general government, central and local governments and the PEFA exercise in the FDRE[30]

In the Federal Democratic Republic of Ethiopia, the non financial public sector includes the General Government, the non financial PE (under PPSEA and under competent ministries), the Federal Government and the Sub National entities (regions and *woredas*):

[30] There is no legal text, which clearly defines the boundaries of the Non Financial Public Sector, the General and Central (Federal) Government in the Federal Democratic Republic of Ethiopia. These definitions are based on: IMF, Government Finance Statistics Manual, Wash DC, 2001 Chapter 2



Scope

The present PEFA exercise will cover the Federal Government exclusively.

2.3 Description of the legal and institutional framework for PFM

a) Legal framework

The *Constitution of the Federal Democratic Republic of Ethiopia* was adopted on December 8th, 1994. It establishes a Federal and Democratic State structure (Art. 1 and Art. 46)[31].

For the purpose of the PEFA exercise, it shall be noted that the *Constitution* without elaborating over the details emphasizes the role of the House Peoples' Representatives in the budget process for some key elements:

- "…*it shall (*the House*) ratify the Federal budget*"[32]
- *"It shall establish standing and ad hoc committees as it deems necessary*

[31] In practice however and even in the official terminology of the Federal Government, the term of *Region* is preferred to *State*. The latter is rarely used. In the PEFA Report the term *Region* is used.
[32] Art. 55,*11*

to accomplish its work"[33]

The *Constitution* considers the Auditor General and its role[34]. He or she has to be appointed by the House of Peoples' Representatives under the recommendations of the Prime Minister. He or she shall audit and inspect the accounts of ministries and other agencies of the Federal Government and submit reports thereon to the House of Peoples' Representatives. The budget of the Office of the Auditor General has to be approved by the House of Peoples' Representatives.

Main Laws, Proclamations and Regulations for PFM are presented in following Box 1:

Box 1: MAIN LAWS, PROCLAMATIONS & REGULATIONS FOR PUBLIC FINANCIAL MANAGEMENT (*)
• Constitution of the Federal Democratic Republic of Ethiopia (1994) • Proclamation on the definition of power and duties of the executive organs (04/1995) • Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996 • Council of Ministers' Financial Regulations No.17/1997 • Federal Government of Ethiopia Proclamation establishing the Office of the Federal Auditor General No. 68/1997 • Proclamation on the establishment of Ethics and Anti-corruption Commission (235-2001) • Federal Government of Ethiopia Proclamation Determining Procedures of Public Procurement and Establishing its Supervisory Agency Proclamation No. 430/2005 • Federal Public Procurement Directive, MOFED, July 2005 (*) Besides the directive on procurement, this list does not include other directives, which complete the proclamations (there are more than 20 directives on PFM issued by MOFED)

b) Institutional framework[35]

Budget planning, budget preparation and execution and the various activities of control involve several entities within the Federal Government and at each specific phase of the budget process.

The following table summarizes the role of each entity in this process:

[33] Art. 55,*19*. This refers to the Budget and Finance Affairs Committee and to the Public Accounts Committee (PAC)
[34] Art. 101
[35] Most of the information for this paragraph was provided by the Budget Consolidation Department, the Central Accounts Department and by Treasury (MOFED)

TABLE 5: INSTITUTIONAL FRAMEWORK FOR PFM IN THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

ENTITIES	ELABORATION, APPROVAL OF POLICIES, DEBT & GUARANTEES	BUDGET PLANNING	BUDGET FORMULATION & APPROVAL	BUDGET EXECUTION & CONTROLS	EXTERNAL CONTROLS
1. CABINET	X	X			
2. MOFED	X	X	X	X	
3. LINE MINISTRIES			X	X	
4. OFFICE OF THE AUDITOR GENERAL					X
5. COUNCIL OF PEOPLES' REPRESENTATIVES			X		X

Source: Information provided by MOFED

The MOFED plays the key role in this process. It is involved in the elaboration of the Macro Economic and Fiscal Framework (MEFF)[36] and of the Public Investment Program (PIP). It is also in charge of preparing the Annual Fiscal Plan. MOFED centralizes the budget preparation process with line ministries and other Budget Institutions (BI). Through Treasury activities and activities of the Internal Audit and Inspection Department MOFED is involved in the execution of the budget that is carried out by each BI.

External Control of the budget and scrutiny over the executed budget are carried out by the Office of the Auditor General (OFAG) and by the Council of Peoples' Representatives.

[36] With the participation of the Ministry of Revenue and of the National Bank The Cabinet approved the MEFF

3. Assessment of the PFM systems, processes and institutions

3.1 Budget credibility

To carry out this assessment, this section considers four (4) indicators to determine whether the budget is sufficiently realistic and is being implemented as planned, namely:

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

PI-1: Aggregate federal expenditure out-turn compared to original approved budget The ability to implement budget expenditures within the amounts originally forecasted is a key factor for government capacity to keep fiscal discipline.

(i) As can be seen in the following table, the results in the deviation of total primary expenditure[37] for the three FY (2002/03-2004/05) are excellent, in that deviation is very small[38]. In fact, in none of these three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.

TABLE 6 (a): DEVIATION IN THE EXECUTION OF FEDERAL BUDGET EXPENDITURE AND VARIANCE IN THE COMPOSITION OF PRIMARY EXPENDITURE INCLUDING REGION SUBSIDIES - EFY 1995-1996-1997 (2002/03-2003/04- 2004/05) [39]

(Percentage of originally budgeted expenditure)

	EFY 1995 (2002/03)	EFY 1996 (2003/04)	EFY 1997 (2004/05)
TOTAL PRIMARY EXPENDITURE DEVIATION	5.00%	3.8%	3.3%
VARIANCE IN THE COMPOSITION OF PRIMARY EXPENDITURE	14.3%	16.0%	12.5%

Source: Own calculations from audited data provided by the Central Accounts Department (CAD) of the MOFED- (Annex 3, Tables 1, 2 & 3)

[37] Primary expenditures equal total expenditures (recurrent and capital) minus: 1) interest on the public debt; 2) grants; 3) foreign project loans.
[38] Preliminary data for 2005/06 have not used for PI-1 to 3 to bring the analysis nearer the date of assessment because they are not available.
[39] Refer to Annex 3 (Tables 1, 2 & 3) for the details to calculate the deviations between budgeted primary expenditures and actual primary expenditures (same for the variance).

PI-2: Federal expenditure out- turn[40] Budget credibility can also be evaluated with the extent to which entities receive the resources originally planned.

(i) As can be seen from the above table, the variance in the composition of primary expenditure was very high during the three-year period 2002/03-2004/05, clearly above 10% for each year examined. This means that there were significant changes in the original composition of primary expenditures of budget entities (about 20) at the federal level. This can likely be explained by a limited capacity for budget preparation and forecasting. It should be noted however that the variance was very high in 2003-2004 (16.0%). It went down to 12.5% in 2004/05.

COMPLEMENTARY NOTE TO PI-1 and PI-2:

Data for primary expenditures (budgeted and actual) used for calculating above P-I and P-2 include subsidies to regions (see Annex 3). During the three years considered (EFY 1995 through EFY 1997), subsidies to regions represented 25.6%, 37.7% and 38.1% of total primary expenditures of the federal budget respectively. This appears to be correct from a methodological point of view[41].

TABLE 6 (b): DEVIATION IN THE EXECUTION OF FEDERAL BUDGET EXPENDITURE AND VARIANCE IN THE COMPOSITION OF PRIMARY EXPENDITURE EXCLUDING REGION SUBSIDIES EFY 1995-1996-1997 (2002/03-2003/04- 2004/05) [42]

(Percentage of originally budgeted expenditure)

	EFY 1995 (2002/03)	EFY 1996 (2003/04)	EFY 1997 (2004/05)
TOTAL PRIMARY EXPENDITURE DEVIATION	7.60%	5.6%	1.0%
VARIANCE IN THE COMPOSITION OF PRIMARY EXPENDITURE	23.4%	25.7%	18.2%

Source: Own calculations from audited data provided by the Central Accounts Department (CAD) of the MOFED-(Annex 3, Tables 1, 2 & 3)

[40] There is no administrative classification of the budget in the Federal Republic of Ethiopia and the functional classification is based on 4 functions (refer to PI-5). For the calculation of PI-2 the sub-functional classification (based on 20 sub-functions) has been used (refer to Annex 3, Tables 1, 2 & 3).
[41] The PEFA Secretariat has confirmed it in its communication dated 16 August 2007
[42] Refer to Annex 3 (Tables 1, 2 & 3) for the details to calculate the deviations between budgeted primary expenditures and actual primary expenditures (same for the variance).

In any case, the exercise has also been carried out with data on primary expenditures of the federal budget without the region subsidies. It is interesting to note (table 6b) that total primary expenditure deviation is significantly higher during the first two years, which translates into a worst scoring (B instead of A). In addition, the composition variance is significantly higher (the scoring for PI-2 does not change). This indicates therefore, that variations from the original budgets of the federal entities are much more important in reality (variations from the original budget of region subsidies are not)..

PI-3: Aggregate federal revenue out -turn Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are dependent upon that forecast.

(i) As can be seen from following table, twice in the three FY (2002/03-2004/05) actual federal revenues represented less than 97% of budgeted revenues.

TABLE 7: AGGREGATE EXECUTION OF CURRENT REVENUES AT THE FEDERAL LEVEL EFY 1995-1996-1997 (2002/03-2003/04- 2004/05)[43]

(Percentage of originally budgeted revenues)

	EFY 1995 (2002/03)	EFY 1996 (2003/04)	EFY 1997 (2004/05)
ACTUAL CURRENT REVENUES	87,19%	97,77%	95,02%

Source: Own calculations from audited data provided by the Central Accounts Department (CAD) of the MOFED- (Annex 3, Table 4)

PI-4: Arrears There are no problems with arrears and unauthorized expenditures in the Federal Democratic Republic of Ethiopia and the country has not built up arrears of salary and other expenditure[44]. This is a situation that has remained constant since before 2002.

(i) At the end of EFY 1998 (2005/06) the stock of federal arrears represented 2.28% of total real expenditures[45]. About three-quarters of this amount were paid within 30 days after the end of the FY as

[43] Refer to Annex 3 (Table 4) for the details to calculate the aggregate execution of current revenues.
[44] CFAA (2003), Volume I, page 24 and PER (2004), Volume II, page 39
[45] Own calculations from data provided by the Department of Treasury of MOFED.

required by law (grace period)[46]. After the payment, the remaining arrears at the beginning of EFY 1999 (July 2006) represented only 0.56% of total expenditures;

(ii) Every year, at the beginning of each FY, each (federal) budget institution (BI) has to provide to Treasury in writing a detailed list of arrears if any. These arrears refer to:
1. Goods ordered and received prior to the end of the FY;
2. Services ordered and rendered prior to the end of the FY;
3. Any amount due or owing under a contract, contribution or other similar arrangement entered into before the end of the FY.

Once Treasury has this information, it consolidates it. Payment follows within 30 days after the end of the EFY as required by law[47].

Conclusion *In order for the budget to be an effective instrument of implementation of public policies, it is important that it is realistic and that it be implemented as it was approved.*

Credibility of the budget	**Scoring**	**D (i)**	**D (ii)**
1. Aggregate expenditure out-turn compared to original approved budget	**A/**B**(*)**	--	--
2. Composition of expenditure out-turn compared to original approved budget	**D/**D**(*)**	--	--
3. Aggregate revenue out-turn compared to original approved budget	**B**	--	--
4. Stock and monitoring of expenditure payment arrears	**A**	A	A

(*) Scoring in the case region subsidies are not taken into account in primary expenditures of the federal government

The use of the PEFA performance indicators to assess the credibility of the federal budget indicates that the overall execution of expenditures during the three EFY 1995-1996-1997 (2002/03-2003/04-2004/05) was excellent and actual amounts spent were not very different from budgeted amounts. Despite this positive element, which appears to contribute to budget credibility, the distribution of expenditures among budget entities showed significant variations. This can likely be explained by a limited capacity for budget preparation and forecasting. On the other side, aggregate federal revenue out -turn compares well with federal budgeted revenues and there are no worries about expenditure arrears.

[46] *Idem* and "*Federal Government of Ethiopia Financial Administration Proclamation* No. 57/1996, Part V, Art. 27"
[47] Communication of the Treasury and *Idem* This has also been confirmed by the IMF

3.2 Comprehensiveness and transparency

This section deals with the comprehensiveness of the budget and with the assessment of the aggregate fiscal risk such as the public access to key fiscal information.

P-5: Classification of the budget A robust classification system allows the tracking of satisfactory spending.

(i) The budget formulation and execution is based on economic and sub-functional classifications[48]. The economic classification uses GFS standards. There are currently twenty (20) sub-functions[49], which are distributed among four (4) functions of expenditures: Administration and General, Economic, Social, and Other[50]. These 20 sub-functions only approximately match the 10 COFOG functions, not the 69 sub-function;

P-6: Budget documentation In order for the legislature to carry out its function of scrutiny and approval, the budget documentation should allow a complete overview of fiscal forecasts, budget proposals and results of past fiscal years.

The annual budget documentation[51] as submitted to Parliament (budget estimates) includes:

1. Macro-economic assumptions including estimates of aggregates growth, inflation and exchange rate as prepared in the MEFF[52];
2. Fiscal deficit, defined according to GFS standard[53];
3. Deficit financing and composition[54];
4. Current year's budget (estimated outturn) in the same format as the budget proposal[55];

[48] Communication of the Macroeconomic Department, the Budget Consolidation Department and the Central Accounts Department The latter has provided audited data on the budget for EFY 1995, 1996 & 1997
[49] For a detailed view of sub-functions, please refer to Annex 3, Tables 1, 2 & 3 (budget data used for the calculation of PI-1 and PI-2)
[50] Budget Reform Design Manual (2000), page 20
[51] The Budget documentation has 3 Volumes, of which only Volume III is available in English.
[52] This information is included in Volume I (only available in Amharic) of the budget documentation (Communication of Budget Consolidation Department)
[53] *Idem*
[54] *Idem*
[55] *Idem*

5. Explanation of budget implications of new policy initiatives with estimates of budgetary impact[56].

PI-7: Coverage of Government operations Fiscal information such as the budget, execution reports and financial statements should include all budgetary and extra-budgetary activities in order to allow a complete overview of revenues, expenditures and public financing.

(i) Budgets of public enterprises (PE) activities are not included in the Federal budget[57]. In addition there are several funds, which operate in a more autonomous fashion than the PE without any scrutiny from the Federal Government. Budgets of the funds are also not included in the Federal budget either. A list of the Funds is presented in following table 7:

TABLE 8: EXTRA-BUDGETARY FUNDS AND YEARLY EXPENDITURE EFY 1995-1996-1997 (2002/03-2003/04-2004/05)

(In million of ETB)

FUNDS	EFY 1995 (2002/03	EFY 1996 (2003/04)	EFY 1997 (2004/05)
Road Fund	300,00	350,00	350,00
Pension & Social Security Funds	610,00	643,00	601,00
Fuel Price Stabilization Funds	9,75	17,00	17,06
Disaster Prevention & Preparedness Fund	1196,48	1206,16	1331,00
Ethiopian Social Rehabilitation & Development Fund	216,60	330,78	310,01
Industrial Development Fund (IDF)	268,00	66,00	162,00
I. TOTAL FUNDS EXPENDITURE	2600,83	2612,94	2771,25
II. TOTAL FEDERAL GOVERNMENT EXPENDITURE	16382,00	19978,00	22967,00
III. FUNDS EXPENDITURE AS A % OF TOTAL EXPENDITURE (=I/II)	**15,87%**	**13,08%**	**12,06%**

Source: Data provided by the Macroeconomic Policy and Management Department of MOFED

As can be seen from above table 7, Funds expenditure as a percentage of total Federal Government expenditures went down from almost 16% to 12% in the period 2002/03-2004/05. Despite this performance, Funds expenditures remain still relatively high;

(ii) There are three (3) channels for the distribution of ODA to the Federal Democratic Republic of Ethiopia. The first (1) channel

[56] *Idem*
[57] Refer to *2.2 d*

is (was) for budget support (BS), for the Protection of Basic Services (PBS), the Public Sector Capacity Building Program (PSCAP), etc. Funds for these activities go directly to the Federal budget. The reporting for these activities that are therefore reflected in the Federal budget is complete[58]. For Channel 2 distribution of ODA, there are different funding modalities to Channel 1[59]. The funds go directly to the implementing agencies through the budget. Reporting for the loan component of these funds is 100% complete[60]. Channel 3 funds go directly to the beneficiaries. They are in grant form only and are not reported or underreported[61].

Overall income/expenditure information for all loan-financed projects is included in fiscal reports[62].

PI-8: Intergovernmental Fiscal Relations[63]

(i) It is a constitutional right of the regions to receive share of the Federal Government revenue[64]. The share of the federal budget going to the Regions is decided each year based on a combination of projected national revenues, the requirements for spending on priority programs at the federal level, and historical funding levels[65]. The allocation of the transfers from the federal budget amongst the Regions is determined by a formula currently based on weights for population (65%), development status (25%), and own revenue effort (10%)[66]. These proportions have changed several times in the past.

Currently the House of Federation is developing a new formula[67]. The related activities are financed by CIDA. The new formula will avoid subjective weights. It will identify differences in expenditure needs on a

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[58] Communication of the Central Accounts Department and of the Budget Consolidation Department of MOFED

[59] Funds from Channels 1 and 2 are loans and grants (Source: MOFED)

[60] Source: MOFED

[61] *Idem*

[62] *Idem*

[63] This indicator assesses the fiscal relations between the Federal Government and the regions only. The fiscal relations between the regions and the *woredas* have been dealt with in the regional PEFA exercise

[64] *Constitution* (1994), Art.95

[65] PER (2004), Volume II, page 33 & Communication of the Budget Consolidation Department of MOFED

[66] Subsidies from the Federal Government to the regions represented 29,89% of total federal expenditures in EFY 1995 (2002/03), 26,59% in EFY 1996 (2003/04) and 25,45% in EFY 1997 (2004/05) (Source: Audited data provided by the CAD of MOFED for these three years)

[67] The House of the Federation is composed of representatives of Nations, Nationalities and Peoples (Art.61-1 of the Constitution), in effect representatives from the councils of each region.

per capita basis, looking at 14 items. The new formula will also look at differences in revenue raising capacity on a per capita basis as well, looking at 6 items[68];

(ii) The Budget Reform Design Manual (2000) currently indicates that regions have to be provided with reliable information on the three-year rolling allocations to be transferred to them on January 16th every year (at the latest)[69]. These would leave the regions with plenty of time to still make changes to their budget. This occurs in practice. However, it appears that the information provided to regions is preliminary. Reliable estimates on transfers from the Federal Government to the regions are only available in November, when the FY has already started[70];

(iii) Fiscal information (ex-ante and ex-post) consistent with federal government fiscal reporting is collected for the totality of SN government expenditure and consolidated in October (November latest) following the end of the EFY (July 7th)[71].

PI-9: Oversight of aggregate fiscal risk Central Government should monitor and take appropriate measures in reference to fiscal risks with national implication, which could result from the activities of SN entities and PE.

(i) The Privatization and Public Enterprise Supervising Agency (PPESA), an agency of the Federal Government, has the responsibility to monitor about 130 non-financial PE[72]. Line competent ministries do the monitoring for the remaining four non financial PE (not under PPESA)[73]. The PPESA ensures that the accounts are closed and audited within a specified period after the end of the FY. It receives detailed information on the financial situation of PE quarterly (non-audited accounts) and yearly (audited accounts). PPESA consolidates revenues, profits, assets and liabilities of the PE under its control. If there is a problem with the financial situations, PPESA intervenes. And in practice fiscal risk is monitored on a case by case basis when needed[74]. The same is carried out by line ministries for the remaining four PE.

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[68] Communication of the House of Federation

[69] Budget Reform Design Manual (2000), pages 96 and 108. This date is to be anticipated to November 25th once the revised budget manual is adopted (Source: Revised Budget Manual, Final Draft, January 2007, page 40).

[70] Communication of the DSA Project staff

[71] *Idem* and MOFED

[72] Refer to 2.2 d

[73] *Idem*

[74] Communication of PPESA

There is no fiscal monitoring of the autonomous funds by the Federal Government. The Government does not monitor the Pension entity either. Both entities are autonomous by law and are exempt from Federal Government scrutiny;

(ii) In practice SN entities (regions) have balanced budgets and do not generate deficits. They may contract debt only from the Federal Government and under special circumstances, and these are strictly monitored by MOFED[75]. Therefore fiscal risk is not really an issue at this point.

P10- Public Access to fiscal information The Constitution of 1994 guarantees freedom of thought, opinion and expression. This fundamental right includes freedom to seek, receive and impart all kind of information and ideas. Freedom of the press and prohibition of censorship are also enshrined in the Constitution.

In the Federal Republic of Ethiopia, the general public has access to following fiscal information[76]:

(i) The budget Law in the *Federal Negarit Gazeta*, the official Government paper, can be purchased at the Government printing house only when the budget law has been adopted in Parliament. The public cannot obtain a set of the annual budget documentation when it is submitted to the legislature;
(ii) The public has no access to the In-year budget execution reports. However the MOFED website www.mofed.org provides quarterly information on the executed budget. Although this information is useful, it is made NOT made routinely available within one month of its completion[77];
(iii) The year-end financial statements prepared by the CAD of MOFED are not available to the public;
(iv) The audit reports from the OFAG are theoretically accessible and available to the public. In practice, though, public access appears limited;
(v) Contracts awarded are not published in the media;
(vi) [n.a.]

[75] "*The Federal Government may grant to States emergency, rehabilitation and development assistance and loans, due care being taken that such assistance and loans do not hinder the proportionate development of States. The Federal Government shall have the power to audit and inspect the proportionate development of States*". (Constitution 1994 Art. 94-2) & *Council of Ministers' Financial Regulations* No.17/1997, Art. 75, 1) and 2)

[76] Communication of the Budget Consolidation Department and of the Central Accounts Department of MOFED

[77] For example, as of October 23, 2007 (EFY 2000), only data for the 3 quarter of EFY 1999 (January 8th through April 7th of 2007) was available on the website.

It should be emphasized that there is as yet a very underdeveloped culture of free information sharing or downward accountability in Ethiopia.

Conclusion *The budget should observe the principle of comprehensiveness as a guarantee that all Government activities and operations are carried out within the framework of fiscal policy and are subjected to appropriate management and information systems. Transparency is equally an important principle, which allows external fiscalization of Government policies and programs and its application.*

Comprehensiveness & Transparency	Scoring	D (i)	D (ii)	D (iii)
5. Classification of the budget	**B**	**--**	**--**	**--**
6. Comprehensiveness of information included in budget documentation	**B**	**--**	**--**	**--**
7. Extent of unreported government operations	**D+**	D	C	--
8. Transparency of inter-governmental fiscal relations	**B**	A	D	A
9. Oversight of aggregate fiscal risk from other public sector entities	**C+**	C	A	--
10. Public access to key fiscal information	**D**	--	--	--

The use of the PEFA performance indicators to assess the budget comprehensiveness & transparency shows that the budget is based on functional (not sub-functional) classification and the information included in the budget documentation is of good quality. Besides the financial activities of PE, there are government operations (particularly from various funds and from the pension entity), which are not included in the federal budget but this is allowed by law. Extra budgetary expenditures represented more than 10% of total expenditures in the three-year period 2002/03-2004/05. The fiscal relations between the Federal Government and the regions are transparent while the former carries out a satisfactory oversight of PE through the Privatization and Public Enterprises Supervising Agency. The public has no access to key fiscal information although a culture of information sharing and downward accountability is currently under-developed in Ethiopia.

3.3 Policy-based budgeting

This section deals with the formulation of the budget process based on two principles:

1. An orderly and effective participation of all executing entities and respective authorities in the formulation process impacts the extent to will reflect macro-economic, fiscal and sector policies;
2. Due to its multi-year implications, the decisions of expenditure policy should align themselves with the medium term availability of resources and with the sectoral strategies.

PI-11 Annual budget preparation

(i) A new indicative financial calendar was introduced in EFY 1994 (2001/02)[78]. It includes a planning and a budgeting cycle. The planning cycle has three stages which are implemented in sequence[79]:

1. The elaboration of a Macro-Economic and Fiscal Framework (MEFF);
2. The multi-year programming through the preparation of a Public Investment Program (PIP);
3. The development of a Fiscal Plan.

The budget cycle involves the preparation, review, approval, appropriation, and implementation of the annual budget and has four (4) parts (each part having one or several steps)[80]:

1. The executive preparation (7 steps);
2. The legislative adoption (3 steps);
3. The executive implementation (3 steps);
4. Audit and evaluation.

For each step the calendar indicates a range of (indicative) dates.

The above annual budget calendar is clear and is generally adhered to. Ministries and other entities have enough time (about eight weeks) to elaborate and finalize their estimates when required.

The *Revised Federal Budget Manual*[81]*,* which has not yet been officially adopted, calls for a new Financial Calendar (federal). The new Financial Calendar also includes two cycles (planning and budgeting). The Planning cycle of the new Calendar lasts longer and puts more emphasis on the elaboration of the MEFF and the PIP, the preparation of the rolling three-year estimate of subsidies to the regions and a Fiscal Plan. These documents have to be more and more consistent

[78] Budget Reform Design Manual (2000), Part II, Chapter 5, pages 95-113
[79] *Idem* page 95
[80] *Idem* page 104
[81] MOFED/DSA (2007) Draft Version, pages 38-39

with higher level national planning strategies such as poverty reduction strategies and sectoral planning strategies.

The budget cycle of the new Calendar gives also the entities enough time (about six weeks) to elaborate and finalize their estimates when required.

(ii) In the Federal Democratic Republic of Ethiopia, the budget circular or budget call is a letter from MOFED sent to all ministries, departments and agencies. It indicates ceilings derived from the MEFF, which is prior approved by the Council of Ministers. The budget call also indicates the deadline for submitting the budget request and provides guidelines for preparing the recurrent and capital submission and on dealing with external loan and assistance[82];

(iii) In the last three EFY, the budget has been approved before the beginning of the new EFY.

PI-12 Multi-year perspective Because policy decisions have multi-year expenditure implications, it is appropriate to align them with the availability of resources in a medium-term perspective.

(i) In the Federal Democratic Republic of Ethiopia a rolling three-year Macroeconomic and Fiscal Framework (MEFF) is the responsibility of the Macroeconomic Policy and Management Department of MOFED who revises and prepares this document at the early stage of the planning process (not later than August 21st)[83]. The MEFF has to be approved by the Council of Ministers and is a three-year forecast of[84] :

a. Economic Growth and GDP;
b. Government revenues and expenditures, and of sources of financing;
c. The allocation between federal government expenditures and the total subsidies to regions and administrative councils;
d. The allocation between capital and recurrent expenditures for the federal government.

Following the preparation of the MEFF a Public Investment Program (PIP) covering capital expenditure over a three-year period is elaborated as a second stage of the Planning Cycle. MOFED is responsible for the coordination of the preparation of the PIP. MOFED usually issues a call letter to all public bodies by November 25 each year. After receiving back the draft PIP submissions from public

[82] Communication of the Budget Consolidation Department
[83] Budget Reform Design Manual (2000), pages 96-100
[84] *Idem* The three-year forecast is not based on the functional or administrative classification

bodies, MOFED finalizes and consolidates the PIP estimates by February 8th[85];

(ii) The Ethiopian authorities carry out every year foreign Debt Sustainability Analysis only[86]. A Foreign and Public Debt Sustainability Analysis for the Federal Democratic Republic of Ethiopia was presented in the context of the 2004 Article IV consultation[87]. A more recent joint IDA-IMF Foreign and Public Debt Sustainability Analysis was also presented in the context of the 2005 Article IV Consultation[88];

(iii) A second-generation PRSP, the Plan for Accelerated & Sustained Development to End Poverty (PASDEP) for the period 2005/06-2009/10 was elaborated under the direction of the MOFED in September 2006[89]. A preliminary PASDEP program cost (recurrent and capital) for all sectors aligned with the MEFF was elaborated for the period 2005/06-2009/10[90]. The preliminary PASDEP data that were elaborated are on total expenditures and data on primary expenditures are not available[91]. However, it can be pointed out that strategies for sectors representing at least 50% of primary expenditures have been costed;

(iv) There has been an effort to link investment budgets and forward recurrent expenditure estimates since the elaboration and implementation of the SDPRP. It appears however that commitments are being made to capital investments without first assuring adequate financing for basic recurrent activities[92]. Basically budgeting for investment and recurrent expenditure remain two separate processes despite this effort.

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[85] *Idem*

[86] Communication of the Credit Administration Department of MOFED

[87] IMF: The Federal Democratic Republic of Ethiopia –Debt Sustainability Analysis, Country Report No. 05/27, January 2005

[88] IMF: The Federal Democratic Republic of Ethiopia- 2005 Article IV Consultation, Country Report No. 06/159, May 2006, Annex I

[89] MOFED: A Plan for Accelerated & Sustained Development to End Poverty (PASDEP), 2005/06-2009/10, Volume I, Main Text, Addis Ababa, September 2006. The PASDEP represents the second phase of the Poverty Reduction Strategy Program (PRSP), which covered the three-year period 2002/03-2004/05.

[90] MOFED (PASDEC), *Idem* pages 261 & 262 Annex Tables 8.3 and 8.4. Prior to this preliminary costing exercise, the IMF developed a preliminary baseline fiscal framework for the period 2005-/06-2009/10 taking PASDEC costs into consideration (Source: IMF, Report No. 06/159, page 34 Table 4)

[91] The costing exercise has not explicitly dealt with financing in general and with foreign financing in particular.

[92] PER (2004) Volume I, page 26

Conclusion *A budget process based on policies allows the government to plan the use of resources in conformity with the fiscal policy and with the national strategy.*

Policy-based budgeting	Scoring	D (i)	D (ii)	D (iii)	D (iv)
11. Orderliness and participation in the annual budget process	**A**	A	A	A	--
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	**C**	C	C	B	D

The use of the performance indicators for policy-based budgeting shows that the annual budget process is well ordered with the existence of a budget calendar generally adhered to as well as with a budget circular issued to budgetary institutions. A rolling three-year Macroeconomic and Fiscal Framework (MEFF) with main economic and fiscal aggregates is elaborated yearly. A Public Investment Program (PIP) covering capital expenditures over a three-year period is also elaborated as a second stage of the Planning Cycle of the budget. Foreign Debt Sustainability Analysis is carried out yearly by the Ethiopian authorities and costed sector strategies for at least 50% of primary expenditures have been prepared. In addition there has been an effort to link investment budgets and forward recurrent expenditure estimates since the elaboration and implementation of the Sustainable Development & Poverty Reduction Program (SDPRP), Ethiopia's first PRSP.

3.4 Predictability and control in budget execution

This section analyses different performance aspects of budget execution in three appropriate systems:

1. Revenue and customs administration[93];
2. Management of treasury and debt management;
3. Internal control of expenditures.

PI-13 Transparency of taxpayer obligations and liabilities Tax payer compliance with registration, declaration and payment procedures can be

[93] Issues related to revenue and custom administration refer to revenues of the Federal Inland Revenue Authority, FIRA (157) and of the Ethiopian Customs Authority (158) only. In EFY 1999 (2006/07), these two departments are expected to collect about 80% of total current revenue. Of the total projected revenue of about ETB 16,955 million to be collected by these two entities, import duties and taxes are expected to represent 46% of total revenue, direct taxes 32% and domestic indirect taxes (including VAT) 21%. (Source: IMF Country Report 06/159, May 2006, Table 2, page 32).

facilitated among other things through clarity and accessibility to legislation and administrative procedures.

(i) In the Federal Democratic Republic of Ethiopia legislation and procedures used by the Federal Inland Revenue Authority (FIRA) for all major taxes are comprehensive and clear[94]. There exist several proclamations with related amendments[95]. The same is true for the Ethiopian Customs Authority (ECA)[96]. The discretionary powers of the government entities involved is in theory fairly limited;

(ii) At the FIRA, there is an information desk where taxpayers can ask for basic information they need. If the queries are very specialized, then the taxpayer is introduced to the specific department where employees with more expertise can answer him. In addition, there are different brochures at the disposal of the taxpayers[97]. Twice a year, the FIRA organizes a forum for businessmen/taxpayers on specific tax issues. In addition there is a regular radio program on taxes organized by the same entity. The taxpayers' education division of the Program Development Department of FIRA has the responsibility for these activities. For people having access to a computer and to the internet, there is a web site where information on taxes can be found: www.mor.gov.et. This is the web site of the Ministry of Revenue, which has an entire section on FIRA and ECA;

(iii) There are two stages in handling tax payers grievances. The first one is within FIRA. It is organized to hear taxpayer's complaints on penalties imposed on the taxpayers' who failed to fulfill their obligation. The other important forum is the Tax Appeal Commission organized independently from the tax office. It is organized under the Ministry of Justice. It is an independent body and has the capacity to reduce or

[94] Relevant here is the Standard Integrated Government Tax Administration System (SIGTAS), a computerized integrated tax solution that is being implemented by FIRA (a process that began in February 2004). This system uses the TIN methodology, and integrates information relating to the assessment and collection of various taxes, including VAT and Income Tax.

[95] Income Tax Proclamation No. 173/1961, as amended by Proclamation No. 286/2002 for taxes on income and profits; Proclamations No. 30/1992, No. 107/1994 and No. 286/2002 for income tax on employment; Proclamations No. 77/1997, No. 152/1978 and No. 8/1995 for rural land and agricultural activities income tax; Proclamation 286/2002 for rental income tax; Proclamation No. 286/2002 for unincorporated business; Proclamations No. 36/1996 and No. 286/2002 as amended for incorporated business; Proclamation No. 286/2002 for capital gains tax; Proclamations No. 68/1993 and No. 285/2002 for value added tax (VAT) on goods and services; Proclamations No. 68/1993, No. 77/1997, No. 149/1999 and No. 307/2002; Income Tax Regulation No. 78/2002 (Sources: www.mor.gov.et, and www.mofaed.org/taxsinopsis.asp, and IMF Country Report No. 06/122, May 2006, Statistical Appendix)

[96] Tariff regulations No. 122/1993, No /1998, / 2002 and Proclamation No. 67/1993 for Customs duty (Source: IMF Country Report No. 06/122, May 2006, Statistical Appendix)

[97] These brochures are in Amharic. We have seen one (Series 1) on General Taxpayers' Information, one on VAT (Series 8) and one on Depreciation (Series 9)

cancel all or partial tax liabilities and penalties. Judges appointed from the public, private sector and the business community manage it. To submit its complaint to the Tax Appeal Commission the taxpayer is obliged to pay 50% of the disputed value of the assessed tax liability. The taxpayer is not required to pay the entire amount[98]. The existing structure operates well but it is too early to really assess its effectiveness.

PI-14 Registration and tax assessment The effectiveness in tax assessment depends upon several factors but the registration of taxpayers and a correct assessment of their tax liabilities are two significant pillars that are taken into consideration.

(i) Each Taxpayer has a Tax Identification Number (TIN) and all taxpayers are registered in a complete database at the Federal Inland Revenue Authority[99]. There are currently no linkages with other systems. Occasional surveys of potential taxpayers are carried out[100]. There is however a project to link the existing system to the Ministry of Trade and industry, which delivers licenses to businesses;

(ii) Penalties for non-compliance exist for almost all relevant areas and they are generally effective although there is not enough evidence to determine whether they are always applied in practice[101]. The legislation offers to the taxpayers the possibility to have their penalties waived[102]. A taxpayer who is liable for penalty because of late filing or non-filing waiver of the penalty is determined in accordance to a table where the amount waived increases when the penalty increases;

(iii) The Assessment and Audit Development Division of the Program Development Department and the Investigation Division of the Tax Investigation and Intelligence Department at FIRA are in charge of audits and fraud respectively. There is an on-going program of tax audits and fraud investigation. An audit manual is used. Audits programs tend in general to be based on risk assessment criteria. These are not always very specific[103].

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[98] Communication of FIRA and of the Budget Consolidation Department

[99] The taxpayer identification number program began in August 2000 with the objective to apply it Nation wide. In May 2002, a project for establishing a Wide Area Network that links 18 networks all over the country started. The project is still under implementation. The TIN system is now being used for registering taxpayers and issuing TIN certificates.

[100] Communication of FIRA

[101] The FIRA claimed they are (Communication of FIRA)

[102] Income Tax Proclamation No.286/2002

[103] Communication of FIRA

PI- 15 Tax collection Prompt transfer of the collections of taxes to the Treasury is critical for ensuring that the collected revenue is available to the Treasury for spending.

(i) Debt collection ratio for registered taxpayers is satisfactory in the Federal Democratic Republic of Ethiopia. In the last two years, it was at least 75%[104]. The amount of tax arrears is under control[105];

[**The information under (i) is based on an interview at the FIRA but quantitative hard data has not been provided. Therefore the dimension could not be rated**]

(ii) Taxes and duties due to the Federal Inland Revenue Authority and to the Ethiopian Customs Authority are paid at the National Bank of Ethiopia (NBE)[106]. Each of these entities have three to four accounts at the NBE were different types of tax revenues are collected. These accounts are controlled by Treasury. At the end of the day, the revenues collected in these accounts are transferred in a single Treasury-controlled account of the entity (Federal Inland Revenue Authority and Customs Authority) at the NBE. Each entity has this single account which is basically the central account of the entity at the NBE. Revenues collected at the central accounts are transferred daily to the Government Treasury Account (Treasury domestic single account). The transfer is made one day after total tax revenues have been transferred to the central account of the entity[107];

(iii) Reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place monthly within the two weeks following the end of period[108].

PI-16 Availability of funds (for expenditure)[109]

(i) Cash flow management (and forecast) for expenditures at the Federal level was introduced in 2004/05 with technical assistance from the IMF. The system is not fully established and cash management can be considered to be in its infancy. This is how it works currently:

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104 Data provided by FIRA
105 Communication of FIRA
106 The NBE is the Central Bank of the Federal Democratic Republic of Ethiopia
107 Communications of Treasury and of FIRA
108 *Idem*
109 Data and information for PI-16 were provided by the Treasury Department of MOFED

1. Starting 2004/05, Federal BI started to send 12-month cash planning to Treasury. This is done yearly and at the very beginning of the EFY;
2. Starting this EFY 1999 (2006/07), at the same time, based on information on revenues provided by the Federal Inland Revenue Authority, the Customs Authority, the Macroeconomic Policy and Management Department of MOFED and information from above 1, Treasury carries out a projection/forecast of cash inflows, outflows and deficit for the year (based also on the voted budget). The results of this exercise are shared with all Federal BI;
3. At this point Federal BI provide Treasury with their first quarterly cash flow needs. This goes further on for the three remaining quarters;
4. Based on the above 3. Treasury carries out monthly (broken down in weeks) consolidation on cash flow needs and ceilings are established for each single Federal BI. Approved budget and existing budget balances by expenditure code are also taken into account. At this point a letter is sent to the NBE with the information on ceilings. Federal BI are informed by letter of their ceilings as well.

Basically, cash flow planning activities occur quarterly and based on needs (and not on cash availability). Ceilings are established monthly on the basis of quarterly cash needs and approved budgets (above 3.). The Ethiopian cash flow planning system is based on systematic borrowing from the NBE.

(ii) Federal BI are provided reliable information on their cash flow availability monthly and this is done when the month has already begun;

(iii) Significant in-year budget adjustments are not frequent and these are undertaken in a transparent manner.

PI-17 Cash balances, debt and guarantees Debt management in terms of contracting, servicing and repayment, and the provision of government guarantees are often important elements of fiscal management to be taken into consideration. Total public debt is estimated at 88.8% of GDP in EFY 1998 (2005/06) of which external debt accounted for 54.0% of GDP[110]. The largest portfolio of debt is owed to IDA[111].

[110] IMF Country Report No. 06/159, May 2006, page 52, Table 2a
[111] Communication of the Credit Administration Department of MOFED and IMF *idem*

(i) The existing legislation emphasizes that MOFED has the responsibility to record the public debt[112]. Foreign debt data are managed through the latest version of the UNCTAD DEMFAS System by the Department of Credit Administration of MOFED and are updated on a regular basis. They are complete and of good quality (they include foreign guaranteed debt of PE)[113]. Data on foreign debt are reconciled formally once a year[114]. Domestic debt is composed of three instruments only, Bonds, Treasury Bills and funds owed to the National Bank of Ethiopia (NBE) for cash advance. Domestic debt data are managed in MS Excel files. These data do not include the domestic debt of PE[115]. Therefore these data are not as comprehensive as the ones on foreign debt. The Department of Credit Administration issues yearly a detailed report on foreign debt only (in *Amharic*)[116];

(ii) There are about 417 Government accounts controlled by Treasury in local currency (ETB) and about 129 in foreign currency[117]. All government cash balances are calculated and consolidated daily[118];

(iii) The Council of People's Representatives of the Federal Republic of Ethiopia has to authorize (any) borrowing of the Federal Government[119]. In addition, according to the existing legislation, borrowing should be managed in a way to avoid negative impacts on the general economy[120]. Guarantees should be in compliance with regulations issued by the Council of Ministers[121]. The Minister of Finance authorizes the issuance of guarantees based on economic considerations[122]. It appears that the liability of the 130 PE under PPSEA is under control[123].

[112] *Federal Government of Ethiopia Financial Administration Proclamation* No. 57/1996, Part VII Art. 45 & *Council of Ministers' Financial Regulations,* No.17/1997, Art.56

[113] Communication of the Credit Administration Department of MOFED of World Bank and IMF

[114] *Idem*

[115] Communication of the IMF

[116] *Idem*

[117] These exclude donors' accounts, accounts of PE and autonomous funds (Data provided by the CAD and Treasury of MOFED)

[118] *Idem*

[119] *Federal Government of Ethiopia Financial Administration Proclamation* No. 57/1996, Part VII Art. 33

[120] *Council of Ministers' Financial Regulations,* No.17/1997, Art.50-3

[121] *Federal Government of Ethiopia Financial Administration Proclamation* No. 57/1996, Part VII Art. 42-1

[122] *Council of Ministers 'Financial Regulations,* No.17/1997, Art.52; PE do not legally need a government guarantee to contract debt. In practice the need the authorization of MOFED to contract foreign loans (Ethiopian Airlines is the only exception to this) because otherwise no foreign financial institution would deal directly with a PE (it prefers to deal with the government). MOFED guarantees such loans and even more. In fact, MOFED has a contractual relationship with the financial institution and receives the funds in foreign exchange. The PE on its side has a contractual relationship with MOFED (and not with the financial institution) and receives the funds in local currency from MOFED (unless the foreign exchange is needed to purchase foreign goods

PI-18 Payroll control Since EFY 1997 (2004/05), payroll is no longer centralized at the Treasury Department of MOFED and is the responsibility of each BI. The Finance Department (FD) of each BI has the responsibility of payroll and uses common payroll software (for the BI only). Each BI also holds a personnel database for the BI (in the respective Administration Department/AD). A Central Personnel Agency (CPA) centralizes personnel data of the Federal Government and authorizes all changes the respective BI personnel database[124].

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(i) Since each BI is in charge of its payroll and holds a corresponding personnel data base, changes that have to occur in the personnel of a BI (hiring, promotion, dismissal, death) are notified to the Administrative Department (AD) by the specific Department of the BI where the change has to occur. The AD notifies the CPA who authorizes the change in the BI personnel database (the change also occurs at the CPA). The AD notifies then the FD and changes in the payroll database are updated monthly[125];

(ii) With the decentralized system of payroll and personnel database, required changes are almost immediate with monthly update. There is no evidence of retroactive adjustment[126];

(iii) The CPA is the entity with clear authority, which authorizes changes in the BI personnel database. For Payroll the BI FD has the authority to make the changes [127];

(iv) Payroll audit is carried out on a regular basis as part of the internal audit activities of the AD and FD of the BI. In addition there is an accountant in each FD in charge of payroll who carries out a pre-audit of the payroll on a monthly basis in order to identify ghost workers[128].

PI-19 Procurement A new legal framework closer to international standards has recently been adopted[129]. A Federal Public Procurement Agency (FPPA) has

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or services). This was the case for the Ethiopian Telecommunication Corporation, the Water Authority and the Ethiopian Power and Electric Corporation (Communication of the Credit Administration Department).

123 Communication of PPSEA

124 Communication of the Treasury Department of the MOFED

125 *Idem*

126 *Idem*

127 *Idem*

128 *Idem*

129 *Federal Government of Ethiopia Proclamation Determining Procedures of Public Procurement and Establishing its Supervisory Agency Proclamation* No. 430/2005; *Federal Public Procurement Directive*, MOFED, July 2005

been recently created in conformity with the new Proclamation[130]. It may take many years to see the impact of the new legislation on the system and to be able to measure this impact. Notwithstanding, it is very likely that the legislative framework in place will help improve transparency in the procurement system. Currently, the FPPA has limited capacity and is understaffed[131].

(i) Technically speaking all contracts above the threshold at the Federal level are awarded on the basis of open competition[132]. Despite this fact, private sector participants in public procurement judge the system of limited fairness and efficiency[133]. Private sector participants emphasizes in this context "…*routine demands from officials for small payments for services rendered*."[134] In any case, it is believed (by the Government itself) that corruption in Ethiopia does not approach the levels noticed in some other Sub-Saharan countries[135]. In addition the overall risk of corruption and diversion of funds is low[136];

(ii) The new procurement legislation contemplates the use of procedures other than open bidding[137]. These are justified in accordance with regulatory requirements[138];

(iii) The new legislation contemplates clear and detailed complaint mechanisms[139]. Basically a complaint shall be submitted in the first instance to the head of the procuring entity. If the head of the procuring entity does not issue a decision within the time stated by law or if the candidate is not satisfied with the decision he is entitled to submit a complaint to the FPPA. As a third instance, a complaint can be presented in court. Overall the process for submitting and addressing procurement complaints is operative. However data on resolution of complaints although not confidential are not yet accessible to public scrutiny[140].

[130] Proclamation No. 430/2005, Chapter II
[131] It is currently understaffed and has 19 people including secretaries and drivers (Communication of the FPPA)
[132] Communication of the newly created FPPA which claimed not to have any data and which is in the process of building a data base; The CPAR carried out in 2001/02 indicated that more than 90% of public procurement follows competitive procedures (World Bank, CPAR, 2002, Volume I, page 13)
[133] World Bank CPAR (2002), *Idem* page 13
[134] *Idem* page 22
[135] *Idem* page 20
[136] CFAA (2003), Volume I page 24
[137] Proclamation No. 430/2005, Art.25.2 and Art.26-27-28-29-30; Federal Public Procurement Directive (2005), Art.6.2
[138] *Idem* and Communication of the FPPA
[139] Proclamation No. 430/2005, Art.51-53; Federal Public Procurement Directive (2005), Art.33-34
[140] Communication of the FPPA

PI-20 Internal controls for non-salary expenditure

(i) In the Federal Democratic Republic of Ethiopia, the Administrative Department (AD) of each BI carries out a control check prior to the signing of a contract for goods and services, casual labor wages and staff allowances. The check carried out consists of making sure that there are approved budget allocations for covering the cost of the contract. No control of cash availability is carried out by the AD and by any other departments[141]. The AD also carries out the bidding process and is in charge of the signing of the contract. Once the contract is signed, the Finance Department (FD) of the BI is notified by the AD. The FD is further informed when the goods have been delivered or when the services have been provided.

Invoices that are received at the BI for goods or services delivered are recorded in the books of the FD as commitments against the available budget. Purchase orders issued and other commitments made during the period, which are likely to culminate in delivery of goods/ services during the period are not recorded in the books of the FD departments of the BI.

The commitment control process as implemented currently covers only the invoices received for the goods/ services delivered. It limits commitments to actual budget allocations but not to actual cash availability[142];

(ii) Other internal control rules regarding processing and recording transactions are generally understood by the interested parties[143];

(iii) In general, there is little evidence of non-compliance with rules. In general there is also little evidence of occasional simplified and non justified procedures[144].

PI-21 Effectiveness of Internal audit

(i) Each Federal ministry has an Internal Audit Unit, which carries out a compliance validation of all payment of the ministry[145]. The Internal

[141] It occurs frequently that the AD of a budget institution contacts the Finance Department of the latter to check on cash availability prior to approve a contract. This is not however an established procedure and it is done informally (Communication of the Finance Department of MOFED).
[142] Communication of the Treasury Department of MOFED Refer also to: (IMF): East AFRITAC, *Ethiopia-Draft Technical Note on the Strategy for Implementing Phase II of Treasury Reforms*, by Vijay Ramachandran, AFRITAC Resident Advisor, December 2006, page 14
[143] Communication of the Treasury Department of MOFED
[144] This has been confirmed by the Budget Consolidation department, the Central Accounts Department and Treasury

Audit also carries out internal audit activities focused on budget utilization. Its activities are based on a yearly audit plan and a rolling program of inspections.

Internal audit activities at the federal level by the above mentioned entity is now carried out using a new systems-based internal audit manual (rolled out in EFY 1996) which has been provided to all internal audit departments in federal government and also to the regions. This has been supplemented with a training manual (EFY 1998). International internal auditing standards are reflected throughout[146];

(ii) Reports are sent to the head of the entity being audited and MOFED's Internal Audit and Inspection Department. However, audit reports are not distributed to the Office of the Federal Auditor's General (OFAG)[147];

(iii) The findings of audit reports have to be incorporated in the entity's Action Plan. In general specific actions resulting from the audit findings are carried out because implementation of these actions is subjected to scrutiny by a public monitoring team from the MOFED[148].

Conclusion *Budget execution should be predictable and subject to controls in order for policies and programs to be effective.*

[145] CFAA (2003), Volume I, page 29. The role of the Inspection department should also be mentioned at this point. In addition to its regulatory role and its role to conduct special Investigation when it is required, it has the role of building the capacity of internal audits and the one of monitoring & evaluating the works of internal audits.

[146] Communication of the ID of MOFED

[147] *Idem* Sending the reports to the OFAG is not a legal requirement though

[148] *Idem*

Predictability and Control in Budget Execution	Scoring	D (i)	D (ii)	D (iii)	D (iv)
13. Transparency of taxpayer obligations and liabilities	**B**	B	B	B	--
14. Effectiveness of measures for taxpayer registration and tax assessment	**C**	C	C	C	--
15. Effectiveness in collection of tax payments	**[Not scored]**	[Not scored]	A	A	--
16. Predictability in the availability of funds for commitments of expenditures	**D+**	C	D	B	--
17. Recording and management of cash balances, debt and guarantees	**B**	C	A	B	--
18. Effectiveness of payroll controls	**B+**	B	A	B	B
19. Competition, value for Money and controls in procurement	**C+**	D	B	B	--
20. Effectiveness of internal controls for non-salary expenditure	**C+**	C	C	B	--
21. Effectiveness of internal audit	**C+**	A	C	B	--

Legislation for most major taxes is comprehensive and clear with taxpayers having access to up-to-date information on tax liabilities. A tax appeal system also exists. Taxpayers have a Taxpayer Identification Number (TIN) and are registered in an integrated tax management database system. Penalties for non-compliance exist and tax audits are carried out.

Cash flow management (and forecast) for expenditures at the Federal level was introduced in 2004/05 with technical assistance from the IMF. The system is not fully established. Federal budgetary institutions are provided reliable information on their cash flow availability monthly and this is done when the month has already begun.

Data on foreign debt data are complete and of good quality. Data on foreign debt are reconciled formally once a year. Domestic debt data do not include the domestic debt of PE. Therefore these data are not as comprehensive as the ones on foreign debt. The Department of Credit Administration issues yearly a detailed report on foreign debt only.

Payroll control and control in procurement are satisfactory while control for non salary expenditures and internal audit have some weaknesses (limiting commitments to actual budget allocations but not to actual cash availability).

3.5 Accounting, recording and reporting

PI-22 Reconciliation of Accounts

(i) Information on all government bank accounts are provided to MOFED daily by the NBE. Bank reconciliation for all Treasury managed bank accounts takes place monthly. The reconciliation is carried out in the following two weeks of end of period[149];

(ii) Reconciliation and clearance of suspense accounts and advances take place monthly within two weeks following end of period[150].

PI-23 Resources received by delivery units

[The subject matter of this indicator is covered in the parallel Regional PEFA process, as delivery units are, by virtue of the government's decentralization process, operational at SN level.

Nevertheless it is worth pointing out that in the accounts of government it is possible to see funds flows down to service delivery units. The chart of accounts has been so designed as to allow such desegregation of data.]

PI-24 On-going budgetary reporting during the year Appropriate and periodic information on budget execution is necessary for the MOFED to monitor fiscal performance and for the ministries to be able to manage their budget.

(i) At the Federal level BI report monthly on their executed budgets to the appropriate department at MOFED[151]. Once every three months, the monthly reports are consolidated in a report covering the previous quarter. These reports are not available in English. The comparison between voted budget and executed budget is available by functions and sub-functions (and by projects). Expenditure is captured at payment stage[152];

(ii) Refer to (i). The quarterly consolidated in-year budget execution reports are usually issued within 2 weeks of end of quarter[153];

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[149] Communication of the Central Accounts Department and of Treasury
[150] *Idem*
[151] The Social Budget Department and the Economic Budget Department at MOFED centralize the monthly budget execution reports.
[152] Communication of the Budget Consolidation Department
[153] *Idem*

(iii) Data of the consolidated quarterly in-year executed budget are not always comprehensive for expenditure covered through external assistance. Although the loan and the Treasury components are generally accurate, grants are not always or insufficiently reported due to delays in reporting by the donors[154]. In any case, the reports are definitely useful[155].

PI-25 Quality and timeliness of annual financial statements Consolidated year-end financial statements are a good expression of the PFM system's transparency. In the Federal Democratic Republic of Ethiopia the preparation and reporting of Public Accounts is articulated in law[156].

(i) A consolidated Federal government statement is prepared annually by the Central Accounts Department of MOFED. It includes full information on revenues and expenditures. It has no information on assets and liabilities[157];

(ii) The statement has to be legally submitted for external audit within six months of the end of the EFY[158] and the Office of the Federal Auditor General (OFAG) has four months to forward it to the House of People's Representatives[159]. Not always the statement has been sent to the OFAG for auditing respecting the six-month delay. Notwithstanding this delay in finalizing the Public Accounts has been reduced significantly[160]. The financial statement of EFY 1998 (2005/06) are closed and have been submitted to the OFAG (April 2007);

(iii) Accounting standards Statements are presented in consistent format. They use IPSAS standards and they also take into consideration existing legislation. These standards are acceptable[161].

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[154] *Idem*
[155] *Idem*
[156] "*Federal Government of Ethiopia Financial Administration Proclamation"* No. 57/1996, Part X, *Public Accounts*, which assigns responsibility of the preparation and reporting of the accounts to the MOFED (Art.50). The detailed content of the Public Accounts is also emphasized. (Art.51).In this context, debt, guaranteed debt and contingent liabilities of the Federal Government are mentioned as part of the Public Accounts (Art.51-d).
[157] *Idem* and Communication of the Budget Consolidation Department; The Federal Democratic Republic of Ethiopia, Central Accounts Department: Budgetary Revenue and Expenditure (Audited). For EFY 1995, Addis Ababa January 2006; For EFY 1996, Addis Ababa 2005; for EFY 1997 Addis Ababa, December 2006."
[158] MOFED *Directive* No. 20, 2005,
[159] *Idem*
[160] Communication of the Budget Consolidation Department and of the CAD
[161] Communication of the CAD

Conclusion *Appropriate, regular and timely financial information is important as a support to the administration processes and for the adoption of budgetary decisions.*

Accounting, Recording and Reporting	**Scoring**	**D (i)**	**D(ii)**	**D(iii)**
22. Timeliness and regularity of accounts reconciliation	**B+**	B	A	--
23. Availability of information on resources received by service delivery units	(Regional PEFA)		--	--
24. Quality and timeliness of in-year budget reports	**C+**	C	A	C
25. Quality and timeliness of annual financial statements	**C+**	C	B	C

Reconciliation of all Treasury controlled accounts is carried out in a timely fashion while the quality of in-year budget reports and annual financial statements is satisfactory. Delays in submitting the annual financial statements to the Office of the Federal Auditor General (OFAG) have been significantly reduced. The financial statement of EFY 1998 (2005/06) are closed and have been submitted to the OFAG (April 2007).

3.6 External scrutiny and audit

PI-26 External Audit The use of public funds can be transparent and effective only with a high quality external audit. In the Federal Democratic Republic of Ethiopia the *Constitution* of 1994 gives power to the Federal Auditor General to audit and inspect the financial accounts of ministries and other entities at the Federal level and to report its findings and recommendations to the House of Peoples' Representatives[162]. The Office of the Federal Auditor General (OFAG) has been established by law[163]. The OFAG is a member of the International Organization of Supreme Audit Institutions (INTOSAI).

(i) Entities of the Federal Government audited annually by OFAG represent at least 50% of total expenditures (although this, to some extent, is qualified by the extent of audit of funds expended at SN level[164]). Audits performed generally adhere to INTOSAI auditing standards and focus on significant issues[165];

(ii) OFAG's audit of the final accounts is dependent upon MOFED transmitting the appropriate documentation. The current legislation establishes that MOFED should close the final accounts and send them to OFAG within six months after the end of the EFY.[166] OFAG has four months to audit the accounts[167]. There have, in passed years, been significant backlogs. There is currently less than one-year lag in auditing the Federal Government accounts: For EFY 1997 (2004/05), OFAG have already finalized the audits and the audited accounts have already been sent to the House of People's

[162] Art. 101-2
[163] Proclamation No. 68/1997
[164] (Communication of OFAG) There is one issue that has recently dominated discussions relating to the scope of the Auditor General's work, however. The Auditor General will audit actual sums disbursed to SN entities through the block grant system but will not pursue the flow of monies down through the system to the point of service delivery. Some interpret the legal framework as giving the Auditor General these powers [Clause 7(2) of the *Office of the Federal Auditor General Establishment Proclamation* (Proclamation 68/1997) states that the OFAF shall "...audit or caused to be audited account involving budgetary subsidies and any special grants extended by the Federal Government to Regional Governments']. Others argue that this is the job of the Regional Auditors General. But these offices are effectively separate institutions not under the control of Federal Auditor General. Taking this argument to its conclusion, it could be argued that the bulk of government expenditure relating to the provision of primary services thus falls to the Regional Auditors General. But the Regional PEFA review has shown that audit coverage by these institutions does not cover 50% in terms of direct external audits of *woreda* jurisdictions, meaning that overall coverage of external audit could be interpreted as being significantly lower than initial scrutiny suggests.
[165] Performance audits are carried out (Source: *Idem*)
[166] MOFED *Directive* No. 20, 2005
[167] *Idem*

Representatives. The financial statements for EFY 1998 (2005/06) were sent to OFAG at the end of April 2007[168]. At the time of finalizing this evaluation (Oct 23, 2007) there was no indication that OFAG has sent the financial statements for EFY 1998 (2005/06) to the legislature;

(iii) The OFAG will give an opinion on the accounts, accompanied by a report which highlights material or noteworthy issues and which makes recommendations relating to improving the standard of public financial management in budgetary institutions. The Public Accounts Committee (PAC) of the House of Peoples' Representatives reviews the audited and accompanying report in open session. Such sessions are widely reported in the media. The PAC, working through the OFAG, to a limited degree, sometimes follows up recommendations at a later date.

PI-27 Legislative approval of the budget

(i) The draft recommended budget is the budget that MOFED prepares and submits to the Council of Ministers, who in turn reviews it and recommends it to the Federal Parliament (House of Peoples' Representatives). The recommended budget, which is reviewed by the legislature includes recurrent and capital expenditures, subsidies to regional governments and administrative councils, and an estimate of resources available to finance the budget[169];

(ii) The *Constitution* of 1994 provides the Federal Parliament with the authority to establish standing and ad-hoc committees to carry out its various reviews[170]. The *Budget and Finance Standing Committee* carries out a review. There is no evidence of existing written procedures for the review;

(iii) The recommended budget must be submitted to the House of Peoples' Representatives no later than June 7[171]. The Council of Peoples' Representatives is required to vote on the annual appropriations for the approved budget no later than July 7[172]. The legislature has about one month to review the recommended budget;

[168] For EFY 1997 (2004/05), OFAG have already finalized the audits and the audited accounts have already been sent to the House of People's Representatives. The CAD of MOFED is currently finalizing the EFY 1998 (2005/06) financial statements. They were sent to OFAG at the end of April 2007 (Communication of CAD).

[169] Revised Budget Manual, Final Draft, January 2007, page 46

[170] Art. 55-19

[171] Revised Budget Manual, Final Draft, January 2007, page 45.

[172] *Federal Government of Ethiopia Financial Administration Proclamation* No. 57/1996,Part IV, Art.16

(iv) Supplementary budgets (or in-year budget amendment) can be authorized by the Council of Peoples' Representatives on the recommendation of the Council of Ministers[173]. Budget amendments are clearly regulated[174]. Although they are generally expected, they allow significant reallocations.

PI-28 Legislative scrutiny of audit reports Once the budget is approved, the legislature has a key role in exercising scrutiny over it.

(i) In the Federal Democratic Republic of Ethiopia examination of the audit reports is carried out by the Public Accounts Committee (PAC)[175]. The PAC ensures accountability. It is now headed a member of an opposition party[176]. The PAC carries out its review within two months from receipts of the reports[177];

(ii) In-depth hearings are conducted by the legislature. They are not systematic due to limited capacity covering partially the audited entities[178];

(iii) The PAC looks at recommendations but in practice they are not acted upon by the executive.

***Conclusion** An effective examination by external audit and by the legislature makes it easier for the Government to be accountable for the content and implementation of fiscal and expenditure policies.*

External Scrutiny and Audit	Scoring	D (i)	D (ii)	D (iii)	D (iv)
26. Scope, nature and follow-up of external audit.	**C+**	C	B	C	--
27. Legislative scrutiny of the annual budget law	**D+**	C	D	C	B
28. Legislative scrutiny of external audit report	**C+**	A	C	C	--

Audits performed by the Office of the Federal Auditor General (OFAG) represent at least 50% of total expenditures. These audits generally adhere to INTOSAI

[173] *Federal Government of Ethiopia Financial Administration Proclamation* No. 57/1996, Part IV, Art.21 & *Council of Ministers Financial Regulations* No. 17/1997, Part V, Art. 19
[174] *Idem*
[175] Communication of OFAG
[176] *Idem*
[177] *Idem*
[178] *Idem*

auditing standards and focus on significant issues. There is currently less than one-year lag in auditing the Federal Government accounts and this delay has been significantly reduced in the last five years. This delay is due to late submission of the financial statements to the OFAG. The OFAG forwards the audited accounts on time to the House of Peoples' Representatives and are reviewed by the Public Accounts Committee (PAC). There is follow up by the legislature (i.e. the PAC) through the OFAG but it is limited.

The *Budget and Finance Standing Committee* carries out a review of the recommended budget. There is no evidence of existing written procedures for the review. Overall the legislature has about one month to review the recommended budget. Supplementary budgets (or in-year budget amendment) can be authorized by the Council of Peoples' Representatives on the recommendation of the Council of Ministers. The rules that allow such amendments are rudimentary.

The examination of the audit reports is carried out by the Public Accounts Committee (PAC) that is now headed by a member of an opposition party. The PAC carries out its review within two months from receipt of the reports. As a result in-depth hearings are conducted by the legislature but these are not as systematic as they could be, due to limitations of both time and capacity. The PAC will look at recommendations but in practice the executive does not act them upon.

3.7 Donor Practices

D-1 Predictability of Direct Budget Support

[Information to score the indicator not available]

TABLE 9: THE WORLD BANK ANNUAL ORIGINAL FUNDS AND DISBURSEMENTS FOR SPECIFIC PURPOSE GRANT AND PROTECTION OF BASIC SERVICES

(Million of US $)

PROGRAMS	**EFY 1997 (2004/05)**		**EFY 1998 (2005/06)**		**EFY 1999 (2006/07)** (Disbursement as of 3/31)	
	Plan	**Disbursement**	**Plan**	**Disbursement**	**Plan**	**Disbursement**
PSCAP	9.90	8.18 (82.3%)	22.2	8.49 (38.2)	31.0	23.41 (75.5%)
Safety Nets	26.39	35.31 (133.8%)	29.19	24.67 (84.5%)	14.17	10.8 (76.2%)
Food Security	12.38	8.97 (72.5)	20.2	15.78 (78.1%)	20.1	5.8 (28.9)
PBS	-	-	129.34	91.00 (70.4%)	175.38	39.63 (22.6)
TOTAL	48.67	52.46 (107.8%)	200.93	139.94 (69.7%)	240.65	79.64 (33%)

Source: World Bank Office, Addis Ababa

D-2 Financial Information provided by donors for budgeting a reporting on project and program aid[179]

(i) All important donors provide budget estimates for disbursement of project aid, which allow the MOFED to indicate budget estimates for projects financed (or co-financed) through foreign aid in the budget (approved) and in the yearly financial statements.

It should however be pointed out that data on ODA provided by other than government sources such as OECD or UNDP for the period EFY 1995-1997 (2002/03-2004/05) are very different from the data provided in the Federal budget. They are in general much higher, which likely indicates that a number of donors provide their assistance directly to the beneficiaries without even reporting (or under-reporting) their related project activities[180];

(ii) Generally all significant donors provide quarterly reports or quarterly data on disbursements made for the externally financed projects and this information is available immediately at the end of the quarter. There are also delays in reporting for several projects by donors[181]. In addition, there are donor project expenditures that are not reported at all as indicated in above (i).

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

[Information to score the indicator not available]

[179] There is a Development Assistance Group (DAG), which regroups bilateral and multilateral donor agencies operating in Ethiopia. The DAG has around thirty active members. For more information please refer to www.dagethiopia.org)

[180] ODA data inconsistencies between Government sources and other sources is a complex issue, which cannot be dealt with in details in the present PEFA Report. However, two data sources have been compared, Government and OECD for the period EFY 1995-1997 (2002/03-2004/05). The comparison is not easy and not totally accurate (it is obliged to compare EFY data with calendar year data of the OECD). Notwithstanding it shows enormous differences between the two sources: EFY 1995 (2002/03): US $ 721 million for Government sources and US $ 1594 million (2003) for OECD; EFY 1996 (2003/04): US $ 815 million for Government sources and US $ 1819 million (2004) for OECD; EFY 1997 (2004/05): US $ 885 million for Government sources and US $ 1937 million (2005) for OECD. (Sources: Central Accounts Department: Budgetary Revenue and Expenditure (Audited). For EFY 1995, Addis Ababa January 2006; For EFY 1996, Addis Ababa 2005; for EFY 1997 Addis Ababa, December 2006 and www.oecd.org/countrylist and www.dagethiopia.org)

[181] Refer to PI-24 (iii)

Donor Practices	Scoring	D (i)	D (ii)
D-1 Predictability of Direct Budget Support	**[Not scored]**		
D-2 Financial Information provided by donors for budgeting an reporting on project and program aid	**C**	C	C
D-3 Proportion of aid that is managed by use of national procedures	**[Not scored]**		

4. Government reform process

Description of Recent and Ongoing Reforms

It is important, when looking at PFM reform issues in the Federal Democratic Republic of Ethiopia, to appreciate the context in which such reforms operate. Ethiopia has historically had a strong civil service culture that has survived the changes in government and governance structures that marked the last quarter of twentieth century Ethiopian history. Commitment to the ethos of public service is high. Historically there have also been low levels of corruption in terms of rent seeking; such behavior is not culturally acceptable (although this may be changing). And commitment to reform is high in Ethiopia – when reform is embraced it is often embraced whole-heartily (as evidenced by the reforms around decentralization, which witnessed very swift roll-out of reforms that actually marked profound changes in the way in which the business of government was conducted).

Taking these issues together, then, it is perhaps not surprising that there has been a relatively long and successful track record of PFM reform in Ethiopia.

Current reforms are encapsulated in the Expenditure Management and Control Program (EMCP) which started life in the 1990s as a bringing together of eight individual PFM reform projects. Since then both the size and scope of the EMCP has grown. In 1998 the EMCP was subsumed into the Civil Service Reform program (CSRP), **PFM reform being seen as a vital element of enhancing civil service delivery**. CSRP has itself now been subsumed into the multi-sector Public Sector Capacity Building Program (PSCAP), a $400 million program supported by a number of donors paying into a pooled fund.

Initially the EMCP comprised work streams relating to the Financial Legal Framework, Public Expenditure Program (PEP), Budget Reform, Accounts Reform, Cash Management, Financial Information Systems, Internal Audit, External Audit, with later additions relating to the Auditing and Accounting Profession, Management Accounting, PEM Program Plan (integrating *PEM/PFM reforms under one plan),* Financial Information Systems Strategy, Procurement Implementation Support, and Property Management. A substantial revision and refocusing of the EMCP occurred in 2002 after the CFAA, but many felt that even this was unable to revitalize parts of a reform plan which seemed well articulated at strategic level, but which experienced real problems in being operational and roll-out, witnessed by delays and sometimes poor progress[182].

[182] The Fiduciary Assessment of 2005 noted, for example, that progress had been slow in areas that were not covered by the Decentralization Support Activity y Project (DSA). This is a situation that has now changed, and **progress is now evident in areas such as internal audit,**

One exception to this has been in the areas of Budget, FIS and Accounts reform which have been bundled together in the Decentralization Support Activity Project[183], which given the nature of first Federal reform and then decentralization, has had as its focus implementing reforms at SN level (albeit based on systems, procedures and methodologies first rolled out through BI at Federal level.

The DSA project has had a profound impact at all levels of government. A platform approach has been taken to reform. Initial measures have been taken to enhance the **transaction platform** through budget reforms (e.g. bringing together capital and recurrent budgets, reclassifying expenditure, drawing up new chars of accounts), planning reforms (budget calendars) accounting reforms (moving to double-entry, modified cash, single-pool systems through a series of incremental and sequenced reform) and FIDS reforms (effectively seeing automation of these reforms once established, culminating in the development of an integrated system showing budget and dispersal information alongside accounting/budget execution information) . A second series of reforms have enhanced the **policy/performance platform** through the creation of a Macroeconomic and Fiscal Framework, and is currently continuing at SN level with reforms to the block grant mechanisms and a move towards more performance based budgeting.

Very careful sequencing (both in terms of building up the respective platforms sequentially, but also in terms of region-by-region roll-out, where the strongest regions have first piloted, then rolled out first, and then helped the weaker regions), iterative and repeated training, and drives to build sustainable internal capacity to continue training and reform effort (rather than rely on externalized technical support) have all contributed to the success of DSA, which has now completed the roll out of reforms to most parts of the country and which, given the 'interconnectedness' of decentralized/Federal Ethiopia has resulted in a number of positive outcomes, not least the significant reduction of accounting backlogs over recent years.

In the period since the Fiduciary Assessment of 2005 there has also been progress in some other areas of the EMCP not covered by DSA activities. In particular:

- <u>Internal Audit</u>: A new internal audit manual, reflecting good international systems audit practice, has been developed and rolled out at Federal and SN level, reforms that have been possible through support from UNDP and Irish Aid;

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procurement and cash management, all subject to less than favorable comment in the Fiduciary Assessment.

[183] A project funded by USAID, Irish Aid and the Netherlands, with Harvard University as the executing agent.

- Procurement: oversight of procurement processes has been agentized (through the creation of the Federal Public Procurement Agency), new proclamations developed at Federal and SN level, and new procedures are now being rolled out;
- Cash Management: Through IMF support, reforms of cash management are ongoing;
- External Audit: Capacity building initiatives, through support from CIDA, are ongoing;
- Performance/program budgeting which started at the Federal level with the help of AFRITAC.

Recent developments serve to augment the EMCP activities. Following difficulties that occurred after the 2005 elections, budget support donors suspended non-earmarked, general budget support, but recognized that if Ethiopia's overall developmental progress was to be sustained (or even accelerated) modalities needed to be developed which continued to fund the provision of primary services at the point of delivery. Together Government and donor partners have now developed the **Protecting Basic Services** (PBS) modality that is, some would argue, direct budget support that is targeted on service delivery at SN level.

Stakeholders appreciate that for sustainable responsiveness and accountability to flourish within the PBS modality (themselves important elements to ensuring that the needs of the most poor and vulnerable are addressed) concerted attempts need to be made to invigorate citizen-state dialogue around financial accountability issues. As a result, two sub-components of the program have been developed which specifically look at these issues. The first (component 3 of the program) is about building capacity within the executive to produce information that will enhance financial accountability. Particular emphasis has been put on building external audit capacity at SN level (although it is somewhat surprising that this has concentrated on working through the OFAG rather than the networks of ORAGs). The second component (component 4 of the program) looks at building the capacity of citizens and communities to demand and use such information so that the State is genuinely held to account by its citizens. Taken together, the two PBS components address both the supply and demand side of the financial accountability institutional framework.

Another current development is the move towards the implementation of a fully integrated IFMIS system. The issue about whether to develop and implement an IFMIS has been discussed in the country for some time. Although not really part if its original mandate, the DSA project has automated its systems and procedures, and latest iterations of the budget and accounting reforms present an integrated budget and accounting solution (IBEX) which incorporates the functionality of budget and disbursal systems and accounting systems. It has apparently now been decided to build on IBEX functionality and deliver a full-blown IFMIS system. Such enterprises are not without risks, and if this is to be a success the implementation process will have to be carefully managed and ideally will be build on the successes that IBEX has already secured.

Institutional Factors supporting reform planning and implementation

Government leadership and ownership regarding ongoing PFM reform efforts are both high. Reform processes in the Federal Democratic Republic of Ethiopia need to be understood against the policy context; the current government believes that issues around poverty and growth are best addressed through governance systems that empower people at grass roots. The PSCAP process is thus seen by many as a process that enables democratization by building capacities at local level.

Over the years there has clearly been government ownership of PSCAP and the EMCP. However, when being critical of Ethiopia's reform efforts some have felt that the DSA activities which form part of the EMCP have taken on a life of their own, and, because of project management arrangements, have actually taken over from EMCP and in some ways have becomes separate from it. If these issues are real, they will not be current for much longer, as the DSA project in its current form is set to close later in 2007, its activities to be subsumed into ongoing reforms led at MOFED. Whilst this move is in principle correct, it is not without its challenges. Reform effort has to be maintained, and MOFED is currently looking at options around how the project activities are to be 'handed over' and how future activities are to be managed.

- One very clear challenge on the horizon is that of invigorating MOFED's role coordinating and overseeing the strategic rollout of a multi-faceted reform program. Capacities of the Government to articulate vision has always been strong, but it has been the rollout of EMCP that has been the Achilles heel, in particular the production of annualized plans and the coordination of reform. **It is likely that partner support will be needed in the future to bolster these capacities, particularly once the DSA project I its current configuration ceases to exist**.

- Another challenge relates to the availability and mobilization of resources needed to effect reform. As has been noted, the EMCP is tied to PSCAP, but accessing PSCAP funds is often difficult. Donor funds exist but past PSCAP review missions have highlighted the difficulties presented to maintaining the impetus of reform presented by bottlenecks in the system. **It is hoped that these will soon be addressed.**

Sustainability of reform

Reforms in Ethiopia are sustainable. Reliance on external technical assistance is actually relatively low, and successful reform efforts (in particular DSA) have placed an emphasis on building internal capacity to continue reforms. So, for example, as initiatives in some of the first regions to undergo reform have become imbedded, so the capacity that has allowed that is then used to help roll out reforms in other regions. In other words, much of the reform effort (in particular by way of training) has been taken forward in its second and further phases not by expatriate experts, but by peers of those first encountering reform. This is highly sustainable, bur also indicative of ownership.

Nevertheless, the reform challenge facing the Federal Democratic Republic of Ethiopia is still monumental (in particular in terms of scale), and external assistance in one form or another will be needed to augment the country's own financial contributions and ideological commitment to this agenda.

ANNEXES

Annex 1: Performance Indicators Summary

ANNEX 1: TABLE 1 FOR GENERAL SCORING

	PFM OUT-TURNS: Budget credibility	**Scoring**	**Comments**	**Sources**
PI-1	Aggregate expenditure out-turn compared to original approved budget	**A**	Refer Annex 3	CAD, MOFED
PI-2	Composition of expenditure out-turn compared to original approved budget	**D**	Refer Annex 3	CAD, MOFED
PI-3	Aggregate revenue out-turn compared to original approved budget	**B**	Refer Annex 3	CAD, MOFED
PI-4	Stock and monitoring of expenditure payment arrears	**A**		Treasury Department, MOFED

	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	**Scoring**	**Sources**
PI-5	Classification of the budget	**B**	Budget Reform Design Manual (2000)
PI-6	Comprehensiveness of information included in budget documentation	**B**	Budget documentation (Volume III)
PI-7	Extent of unreported government operations	**D+**	Macroeconomic Policy and Management Department of MOFED
PI-8	Transparency of Inter-Governmental Fiscal Relations	**B**	PPSEA, Budget Consolidation Department, MOFED, Constitution (1994), PER (2004)
PI-9	Oversight of aggregate fiscal risk from other public sector entities	**C+**	PPSEA, Budget Consolidation Department, MOFED
PI-10	Public Access to key fiscal information	**D**	Budget Consolidation Department of MOFED

	C. BUDGET CYCLE	Scoring	Sources
	C (i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	**A**	Budget Reform Design Manual (2000)
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**C**	CAD, Budget Consolidation Department, Budget Reform Design Manual (2000)
	C (ii) Predictability & Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	**B**	IMF Country Report 06/159, FIRA, Various Tax Proclamations, www.mor.gov.et, www.mofaed.org/taxsinopsis.asp
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**C**	FIRA
PI-15	Effectiveness in collection of tax payments	**[Not scored]**	FIRA
PI-16	Predictability in the availability of funds for commitment of expenditures	**D+**	Treasury Department (MOFED)
PI-17	Recording and management of cash balances, debt and guarantees	**B**	Credit Administration Department
PI-18	Effectiveness of payroll controls	**B+**	Treasury Department (MOFED)
PI-19	Competition, value for money and controls in procurement	**C+**	Federal Public Procurement Agency (FPPA) and various Proclamations, CPAR
PI-20	Effectiveness of internal controls for non-salary expenditures	**C+**	Treasury Department (MOFED)
PI-21	Effectiveness of internal audit	**C+**	Internal Audit and Inspection Department (MOFED), CFAA
	C (iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	**B+**	CAD (MOFED)
PI-23	Availability of information on resources received by service delivery units	**--**	Regional PEFA
PI-24	Quality and timeliness of in-year budget reports	**C+**	Budget Consolidation Department (MOFED)
PI-25	Quality and timeliness of annual financial statements	**C+**	Budget Consolidation Department (MOFED) Budgetary Revenue and Expenditure. For EFY 1995, for EFY 1996, for EFY 1997
	C (iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	**C+**	OFAG, Proclamation No. 68/1997
PI-27	Legislative scrutiny of the annual budget law	**D+**	Federal Government of Ethiopia *Financial Administration Proclamation* No. 57/1996,Part IV
PI-28	Legislative scrutiny of external audit reports	**C+**	OFAG

	D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	**[Not scored]**	
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**C**	
D-3	Proportion of aid that is managed by use of national procedures	**[Not scored]**	

ANNEX 1: TABLE 2 FOR DETAILED SCORING

A. PFM OUT-TURNS: Credibility of the budget					
Indicator	**Scoring**	**D (i)**	**D (ii)**	**D (iii)**	**D (iv)**
PI-1	**A**	--	--	--	--
PI-2	**D**	--	--	--	--
PI-3	**B**	--	--	--	--
PI-4	**A**	A	A	--	--
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5	**B**	--	--	--	--
PI-6	**B**	--	--	--	--
PI-7	**D+**	D	C	--	--
PI-8	**B**	A	D	A	--
PI-9	**C+**	C	A	--	--
PI-10	**D**	--	--	--	--
C. BUDGET CYCLE					
C (i) Policy-Based Budgeting					
PI-11	**A**	A	A	A	--
PI-12	**C**	C	C	B	D
C (ii) Predictability & Control in Budget Execution					
PI-13	**B**	B	B	B	--
PI-14	**C**	C	C	C	--
PI-15	**[Not scored]**	[Not scored]	A	A	--
PI-16	**D+**	C	D	B	--
PI-17	**B**	C	A	B	--
PI-18	**B+**	B	A	B	B
PI-19	**C+**	D	B	B	--
PI-20	**C+**	C	C	B	--
PI-21	**C+**	A	C	B	--
C (iii) Accounting, Recording and Reporting					
PI-22	**B+**	B	A	--	--
PI-23	Regional PEFA	--	--	--	--
PI-24	**C+**	C	A	C	--
PI-25	**C+**	C	B	C	--
C (iv) External Scrutiny and Audit					
PI-26	**C+**	C	B	C	--
PI-27	**D+**	C	D	C	B
PI-28	**C+**	A	C	C	--
D. DONOR PRACTICES					
D-1	**[Not scored]**			**--**	**--**
D-2	**C**	C	C	**--**	**--**
D-3	**[Not scored]**				

Annex 2: Source of information

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ANNEX 3: Files for Calculating PI-1, PI-2 and PI3

Annex 3: Table 1 (For PI-1 and PI-2)

		Data for Year =	EFY 1995	(2002/03)			
		Sub-functional head	**budget**	**actual**	difference	absolute	Percent
1	110	Organs of State	95 389 200,00	109 692 189,13	14 302 989,13	14302989,13	15,0%
2	120	Justice & Public Order	248 146 700,00	353 516 451,21	105 369 751,2	105369751,2	42,5%
3	140	National Defense	3 000 000 000,00	2 537 829 759,00	-462 170 241,0	462170241	15,4%
4	150	General Services	554 303 300,00	644 401 389,07	90 098 089,07	90098089,07	16,3%
5	210	Agriculture/Natural Resources	537 941 200,00	458 339 341,69	-79 601 858,31	79601858,31	14,8%
6	220	Water Resources	118 065 160,00	93 609 149,16	-24 456 010,84	24456010,84	20,7%
7	230	Industry & Trade	193 952 100,00	180 034 551,59	-13 917 548,41	13917548,41	7,2%
8	240	Tourism	23 770 600,00	17 653 953,22	-6 116 646,78	6116646,78	25,7%
9	250	Mining & Energy	135 609 200,00	120 506 937,41	-15 102 262,59	15102262,59	11,1%
10	260	Transport & Communication	246 187 400,00	250 335 405,54	4 148 005,54	4148005,54	1,7%
11	270	Construction	533 988 900,00	561 815 992,60	27 827 092,60	27827092,6	5,2%
12	310	Education & Training	816 453 200,00	1 423 271 602,46	606 818 402,5	606818402,5	74,3%
13	320	Information/Communication					
14	330	Culture & Sport	39 807 400,00	36 257 087,49	-3 550 312,51	3550312,51	8,9%
15	340	Health	81 951 800,00	118 677 390,93	36 725 590,93	36725590,93	44,8%
16	350	Labor & Social Affairs	27 937 200,00	25 507 044,24	-2 430 155,76	2430155,76	8,7%
17	360	Prevention & Rehabilitation	28 992 900,00	516 882 784,92	487 889 884,9	487889884,9	1682,8%
18	410	Transfer	184 228 600,00	193 197 925,98	8 969 325,98	8969325,98	4,9%
19	430	Region Subsidies	4 555 800 000,00	4 600 907 738,00	45 107 738,00	45107738	1,0%
20	460	Provisions	270 200 000,00	42 099 666,05	-228 100 334,0	228100334	84,4%
21	470	Others	25 000 000,00	22 498 038,73	-2 501 961,27	2501961,27	10,0%
		Total Expenditure Deviation	11 717 724 860,00	12 307 034 398,42	589 309 538,4	589309538,4	**5,0%**
		Composition Variance	11 717 724 860,00	12 307 034 398,42		2265204201	**19,3%**
		Total Expenditure Deviation (without region subsidies)	7 161 924 860,00	7 706 126 660,42	544 201 800,4	544201800,4	**7,6%**
		Composition Variance (without region subsidies)	7 161 924 860,00	7 706 126 660,42	--	2220096463	**31,0%**

Source: FDRE, Budgetary Revenue & Expenditure for EFY 1995 (2002/03)

Annex 3: Table 2 (For PI-1 and PI-2)

		Data for Year =	EFY 1996	(2003/04)			
		Sub-functional head	**budget**	**actual**	difference	absolute	percent
1	110	Organs of State	87 709 000,00	108 169 802,16	20 460 802,16	20460802,16	23,3%
2	120	Justice & Public Order	250 360 500,00	274 035 281,17	23 674 781,17	23674781,17	9,5%
3	140	National Defense	3 000 000 000,00	2 494 000 898,81	-505 999 101,2	505999101,2	16,9%
4	150	General Services	548 770 600,00	665 842 944,03	117 072 344,0	117072344	21,3%
5	210	Agriculture/Natural Resources	586 242 210,00	615 217 510,40	28 975 300,40	28975300,4	4,9%
6	220	Water Resources					
7	230	Industry & Trade	86 739 575,00	77 945 854,18	-8 793 720,82	8793720,82	10,1%
8	240	Tourism					
9	250	Mining & Energy	111 977 373,00	93 489 457,19	-18 487 915,81	18487915,81	16,5%
10	260	Transport & Communication	157 122 700,00	163 620 720,52	6 498 020,52	6498020,52	4,1%
11	270	Construction	604 170 800,00	539 569 587,88	-64 601 212,12	64601212,12	10,7%
12	310	Education & Training	1 159 913 540,00	2 037 313 575,81	877 400 035,8	877400035,8	75,6%
13	320	Information/Communication					
14	330	Culture & Sport	42 853 200,00	49 668 670,24	6 815 470,24	6815470,24	15,9%
15	340	Health	76 950 700,00	119 372 093,40	42 421 393,40	42421393,4	55,1%
16	350	Labor & Social Affairs	26 762 800,00	22 929 178,16	-3 833 621,84	3833621,84	14,3%
17	360	Prevention & Rehabilitation	25 441 950,00	334 525 081,70	309 083 131,7	309083131,7	1214,9%
18	410	Transfer	14 721 700,00	121 726 394,45	107 004 694,5	107004694,5	726,9%
19	430	Region Subsidies	5 055 800 000,00	5 095 551 297,86	39 751 297,86	39751297,86	0,8%
20	460	Provisions	369 200 000,00	9 437 653,00	-359 762 347,0	359762347	97,4%
21	470	Others	1 200 139 600,00	1 090 840 838,24	-109 298 761,8	109298761,8	9,1%
		Total Expenditure Deviation	13 404 876 248,00	13 913 256 839,20	508 380 591,2	508380591,2	**3,8%**
		Composition Variance	13 404 876 248,00	13 913 256 839,20		2 649 933 952	**19,8%**
		Total Expenditure Deviation (without region subsidies)	8 349 076 248,00	8 817 705 541,34	468 629 293,3	468629293,3	**5,6%**
		Composition Variance (without region subsidies)	8 349 076 248,00	8 817 705 541,34	--	2610182654	**31,3%**

Source: FDRE, Budgetary Revenue & Expenditure for EFY 1996 (2003/04)

Annex 3: Table 3 (For PI-1 and PI-2)

		Data for Year =	**EFY 1997**	**(2004/05)**			
		Sub-functional head	**budget**	**Actual**	difference	absolute	percent
1	110	Organs of State	106 917 200,00	145 036 415,42	38 119 215,42	38119215,42	35,7%
2	120	Justice & Public Order	315 606 700,00	400 904 247,71	85 297 547,71	85297547,71	27,0%
3	140	National Defense	3 000 000 000,00	2 876 499 843,97	-123 500 156,0	123500156	4,1%
4	150	General Services	501 618 974,00	606 083 299,12	104 464 325,1	104464325,1	20,8%
5	210	Agriculture/Natural Resources	2 480 871 900,00	2 498 477 954,64	17 606 054,64	17606054,64	0,7%
6	220	Water Resources	126 687 930,00	520 873 526,63	394 185 596,6	394185596,6	311,1%
7	230	Industry & Trade	69 795 424,00	59 974 366,64	-9 821 057,36	9821057,36	14,1%
8	240	Tourism					
9	250	Mining & Energy	93 534 800,00	83 169 791,40	-10 365 008,60	10365008,6	11,1%
10	260	Transport & Communication	143 181 376,00	172 837 532,40	29 656 156,40	29656156,4	20,7%
11	270	Construction	749 470 600,00	787 581 383,34	38 110 783,34	38110783,34	5,1%
12	310	Education & Training	1 929 111 790,00	1 719 223 806,01	-209 887 984,0	209887984	10,9%
13	320	Information & Communication	8 874 400,00	41 666 560,33	32 792 160,33	32792160,33	369,5%
14	330	Culture & Sport	42 314 300,00	41 501 272,03	-813 027,97	813027,97	1,9%
15	340	Health	80 279 300,00	190 312 289,12	110 032 989,1	110032989,1	137,1%
16	350	Labor & Social Affairs	24 050 500,00	21 817 567,54	-2 232 932,46	2232932,46	9,3%
17	360	Prevention & Rehabilitation	22 554 400,00	198 844 856,82	176 290 456,8	176290456,8	781,6%
18	410	Transfer	15 900 000,00	31 331 622,77	15 431 622,77	15431622,77	97,1%
19	430	Region Subsidies	6 364 200 000,00	5 702 319 695,97	-661 880 304,0	661880304	10,4%
20	460	Provisions	420 171 800,00	14 541 233,73	-405 630 566,3	405630566,3	96,5%
21	470	Others	197 139 600,00	22 055 012,05	-175 084 588,0	175084588	88,8%
		Total Expenditure Deviation	16 692 280 994,00	16 135 052 277,64	-557 228 716,4	557 228 716,4	**3,3%**
		Composition Variance	16 692 280 994,00	16 135 052 277,64		2 641 202 533	**15,8%**
		Total Expenditure Deviation (without region subsidies)	10 328 080 994,00	10 432 732 581,67	104 651 587,7	104651587,7	**1,0%**
		Composition Variance (without region subsidies)	10 328 080 994,00	10 432 732 581,67		1979322229	**19,2%**

Source: FDRE, Budgetary Revenue & Expenditure for EFY 1997 (2004/05)

Annex 3: Table 4 (For PI-3)

FEDERAL TAX REVENUE				
		Approved Budget (I)	Actual Revenue (II)	**Outcome (II/I)**
EFY 1995	**(2002/03)**	7 737 430 000,00	6 746 116 654,19	**87,19%**
EFY 1996	**(2003/04)**	8 588 305 264,00	8 396 833 895,13	**97,77%**
EFY 1997	**(2004/05)**	9 850 460 872,00	9 360 363 184,98	**95,02%**

Sources: FDRE, Budgetary Revenue and Expenditure for EFY 1995, Addis Ababa January 2006
For EFY 1996, Addis Ababa 2005, for EFY 1997, Addis Ababa, December 2006