THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA-THE FEDERAL PEFA REPEAT ASSESSMENT REPORT

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THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
THE FEDERAL PFM PERFORMANCE REPORT
A REPEAT ASSESSMENT

(September 30th, 2010)

This project is financed by the European Union (EU) and implemented by LINPICO and IDC, France. Giovanni Caprio and Getnet Haile are the authors of the PEFA repeat assessment for the Federal Democratic Republic of Ethiopia. Giovanni Caprio is responsible for the content of the report which does not necessarily reflect the views of the EU, IDC, LINPICO or the views of the PEFA Secretariat in Washington DC.

CURRENCY AND EXCHANGE RATES

Currency unit = Ethiopian Birr (ETB)

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

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

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

ACRONYMS AND ABBREVIATIONS

AD	Administrative Department
AFDB/AFD	African Development Bank
AFD	African Development Fund
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
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
DFID	Department for International Development (UK)
DIP	Democratic Institution Programme
EC	European Commission
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Program
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian Birr
EU	European Union
FA	Fiduciary Assessment
FD	Finance Department
FDRE	Federal Democratic Republic of Ethiopia
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
IBEX	Integrated Budget and Expenditures
ID	Inspection Department
IDA	International Development Agency (World Bank)
IMF	International Monetary Fund
IMIS	Integrated Management Information System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISPPIA	International Standards for the Professional Practice in Internal Audit
IT	Information Technology
JICA	Japan international Cooperation Agency
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
NBE	National Bank of Ethiopia (Central Bank)
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
PM	Prime Minister
PPA	Public Procurement and Property Administration Agency
PPESA	Privatization and Public Enterprises Supervising Agency
PRSP	Poverty Reduction Strategy Program
PSCAP	Public Sector Capacity Building Program
PSNP	Productive Safety Net programme
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
YTD	Year to date

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Foreword and acknowledgements

The present PEFA evaluation is based essentially on field work in the period of February 19th through March 16th 2010 carried out by Giovanni Caprio and Getnet Haile. During the same period information for the PEFA evaluation of the City Administration of Addis Ababa was also collected[1]. 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 Office of the Auditor General and Parliament (House of Representatives). In addition, earlier analytical reports particularly the Federal PEFA report carried out by Giovanni Caprio in 2007 have also been used. For many indicators, the rating could benefit from triangulation of information, based on sources such as the Chamber of Commerce of the City of Addis Ababa. For a great number of indicators, the rating has greatly benefited from information and data provided by representatives of the EU, DFID, CIDA, USAID, JICA, the African Development Bank, the World Bank and the IMF.

The authors are particularly grateful to the Head of the Central Accounts Department (CAD), Ato Degu Lakew, and the Head of Treasury, Ato Getachew Negera, the Director General of the Federal Public Procurement Agency Ato Tsegaye Abebe, who have provided a great deal of the information for the report and have been constantly available and accessible during the field work. Ato Mussa Mohammed from the Ministry of Finance and Economic Development has coordinated the PEFA work and has shown great interest in the exercise.

The authors also express their gratitude to the European Union for its funding and support for this work and to the PEFA Secretariat.

[1] Another team lead by Peter Fairman and including Getachew Gebre has carried out the PEFA exercise for the regions of Oromia, Amhara and Southern Nations. A third team composed of Getachew Gebre and Getnet Haile was in charge of the PEFA for the regions of Benshangul and Harari

Summary assessment

i) Integrated assessment of PFM performance

Credibility of the budget

The use of the PEFA performance indicators in 2010 to assess the credibility of the federal budget indicates that the overall execution of expenditures during the three EFY 1999-2000-2001 (2006/07-2007/08-2008/09), the last years for which data is available, was good and actual amounts spent were not very different from budgeted amounts. In addition, there were no significant changes in the original composition of primary expenditures and aggregate federal revenue out - turn compares well with federal budgeted revenues. Moreover expenditure arrears are far from being a systemic problem indicating that commitment controls are good (with no cash rationing). As far as the credibility of the budget is concerned, the situation in 2010 appears to have improved when compared with the same in 2007. In fact the country has managed to perform consistently in all areas relevant to budget credibility with the focus remaining on ensuring fiscal discipline.

Comprehensiveness and transparency

The 2010 PEFA evaluation indicated that the budget is based on functional and sub-functional classification with the information of very good quality included in the budget documentation. Unfortunately there are government operations from various funds and from the pension entity, which are not included in the federal budget (representing more than 10% of total expenditures in EFY 2000 and EFY 2001). These extra budgetary funds remain outside the weekly consolidation exercise of the government cash balances. The Fiscal relations between the Federal Government and the regions are transparent while the former carries out a satisfactory oversight of PE through the newly created committee. The public has a fair access to key fiscal information. As far as comprehensiveness and transparency is concerned performance in 2010 has improved overall when compared to 2007. The budget documentation includes more information. The oversight of PE has improved. Moreover, the public has now a fair access to key fiscal information.

Policy-based budgeting

In 2010 the annual budget process continues to be 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. Budget institutions are gradually learning how to elaborate their budget on a multi-year basis (performance budgeting). Foreign Debt Sustainability Analysis is carried out yearly by the Ethiopian authorities. Unfortunately, costed sector strategies are not always consistent with aggregate fiscal forecast and many investment decisions have weak links to sector strategies. With regard to 2007, the 2010 PEFA evaluation indicates that performance in both budget preparation and multi-year budgeting (with the introduction of program budgeting) has slightly improved.

Predictability and control in budget execution

In 2010 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 a database system. Penalties for non-compliance exist and tax audits are performed. However, there are significant tax arrears. A new Ethiopian Revenue/Customs Authority (ERCA) was created. With regard to 2007 performance in tax/customs areas mentioned, these have improved slightly with several issues being dealt with.

Cash flow management and forecasting for expenditures at the Federal level have greatly improved in 2010 with regard to 2007 with the system being almost fully established. Budget Institutions have now a greater horizon for planning and committing expenditures. This is due to the fact that disbursements are not only based on approved budget allocations but also on disbursement ceilings. Debt data quality and reporting have also improved (slightly) when compared to 2007. There are good payroll controls systems with a good degree of integration and reconciliation between personnel records and payroll data with changes occurring timely. Overall controls in public procurement are satisfactory with a good degree of justification for the use of less competitive procurement methods and the existence and functioning of a good procurement complaints mechanism. New procurement legislation has recently been introduced and he is slowly being implemented.

Controls for non-salary expenditure have improved when compared to 2007. The change is mainly due to the control carried out by IBEX on disbursement ceilings and to the introduction of the cash flow system. The PEFA evaluation also shows that overall performance of internal audit has improved between 2007 and 2010.

Accounting, recording and reporting

As in 2007 reconciliation of all Treasury controlled accounts is carried out in a timely fashion. In 2010 due to IBEX the quality of in-year budget execution reports has improved and these reports can be considered extremely comprehensive and detailed with expenditures captured in all its phases. In addition reports are readily or almost readily available. Annual financial statements in 2010 are comprehensive including information on revenue and expenditures, financial assets and liabilities. However there are still delays in submitting them to the Office of the Auditor General: The EFY2001 (2008/09) statements were submitted with almost 8 months within the end of the EFY respectively.

External Scrutiny and audit

In 2010 the scope of audits performed by the Office of the Federal Auditor General (OFAG) remains at about 50% of total expenditure but audited financial statements are presented timely to the Parliament. In addition audits of the OFAG generally adhere to INTOSAI auditing standards and focus on significant issues.

The parliamentary scrutiny of the draft budget law is extremely limited. A manual for the parliamentary review has been introduced in 2007 but it is not referred to. The time allowed for the review is about a month and it is not considered to be sufficient. Overall the parliamentary scrutiny of the budget has not improved in 2010 when compared to 2007. However, the introduction of a manual for the review can be considered to be a small progress.

ii) Implications for budgetary outcome

Overall aggregate fiscal discipline is well supported (as in 2007) by a good aggregate expenditure out-turn and a fair composition of expenditure out-turn compared to the original approved budget. Fair aggregate revenue out- turn compared to original approved budget and the inexistence of expenditures arrears are having a similar impact. In addition, the good quality of debt data and reporting as well as the good quality of in-year execution reports support aggregate fiscal discipline (and more than in 2007). However the latter is affected by the significant amount of extra-budgetary expenditures as well as by the weak link of investment decisions to sector strategies (no change with regard to 2007).

In 2010 regarding the strategic allocation of resources, actual resource allocation is better in line with stated budgetary targets than in 2007 to the extent that the composition of expenditure out- turn compared to original approved budget is better. In addition, the information included in budget documentation and the information on donor-funded projects (included in fiscal reports) is more comprehensive. The in-year budget execution reports are of better quality and the legislative scrutiny of the draft budget law has slightly improved when compared to the 2007 evaluation. However, the inconsistency of costed sector strategies with aggregate fiscal forecasts and the weak links of investments decisions with sector strategies continue to affect and to weaken the strategic character in the allocation of resources. Moreover, the exclusion of large extra budgetary funds from budget information undermines the strategic allocation of resources.

Efficiency in service delivery in 2010 is better supported than in 2007 because of the overall improvement in the predictability of funds for committing expenditures, more effective internal controls for non-salary expenditures and internal audits and in-year budget execution reports of better quality. To a lesser extent the introduction of new procurement legislation and its gradual implementation are acting in the same direction as well as the coverage of external audit which is about 50% of total expenditures. Notwithstanding the delay of the Federal Government in transmitting reliable information on the allocations to be received by regions greatly affects efficiency in service delivery.

All the above are influenced by the integrity of fiscal information. The latter is well supported by account reconciliations that are timely and regular and to some extent by the annual financial statements that are of good quality (although not timely) and by a good legislative scrutiny of external audit reports. However the integrity of fiscal information is greatly affected by the limited scope of external audit. Overall as far as the integrity of fiscal information is concerned there is no change in performance to be observed between 2007 and 2010.

In conclusion, PFM in the Federal Democratic Republic of Ethiopia, when analysed from the perspective of the six dimensions of the PEFA, functions performs well in general. Overall performance has definitely improved between 2007 and 2010. There are still areas to be improved. These areas have been identified, and in most cases the necessary corrective measures are either being implemented or in the process of being implemented with the objective of adopting international good practices. The continuity in the implementation of these measures and reforms will make it possible to further strengthen the country's PFM system and better support the three budgetary outcomes. This will also play a decisive role in supporting poverty reduction in the country. In this context, the quality of Federal government leadership and the continuation of MOFED leadership will be of the utmost importance in ensuring the success of these outstanding reforms.

iii) Prospect for reforms

The PFM reform process in the FDRE has been on-going for many years, through the Expenditure Management Control Programme (EMCP) and the Public Sector Capacity Building Programme (PSCAP). These programmes have concentrated on the overall operations of budget preparation, revenue administration, budget execution, internal controls, cash management, accounting and reporting. These changes were successful because these areas operate well with the related mechanisms more or less in place. Future challenges, as recognized by the Government, include creating a budget process based on policies (linkages between public expenditure and policy objectives. In this context a programming/performance budgeting framework is being developed by MOFED to make the budget process more efficient and to strengthen transparency and accountability.

The FDRE receives a significant amount of external assistance (about one-third of total expenditures) most of which is in grant form. Grants are provided by both multilateral institutions and directly by foreign government (and both entities cover the support for the protection of basic services/PBS). During the last three (3) EFY1999-2001 (2006/07 through 2008/09), there were about 20 multilateral institutions and about the same number of (bilateral) governments that provided grants to the country. Loans were mainly provided by IDA/WB but also by the African Development Fund

Comparative summary of the scores (2007 & 2010)

As can be seen in the following table (and in annex 1 table 1 for more details) scores of ten (10) indicators, PI-2, PI-6,PI-8, PI-10, PI-13, PI-14, PI-16, PI-20, PI-21 and PI-24 have improved reflecting a change in performance of the PFM areas covered by the indicators. For five (5) indicators PI-9, PI-12, PI-17, PI-26 and PI-27 the scores have not changed but there are on-going reforms in the areas covered by these indicators and changes in performance are not yet reflected in the scores. An arrow (↑) accompanies the score to reflect this situation. Eleven (11) indicators, PI-3, PI-4, PI-5, PI-7, PI-11, PI-18, PI-19, PI-22, PI-25, PI-28 and D-2 have the same score in 2010 as in 2007. This indicates that performance in the areas covered by these indicators is about the same as it was three years ago (or only the score of one dimension has improved). From the remaining (6) indicators, performance has deteriorated for just one indicator (PI-1), one indicator (PI-23) is not applicable to the Federal PEFA, D-1 could not be scored because one dimension of the indicator could not be scored. For D-3 change in performance could not be measured because the indicator could not be scored in 2007. PI-15 could not be scored (neither in 2007 nor in 2010).

PEFA PERFORMANCE INDICATORS IN THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (2007-2010)[2]

	A. PFM OUT-TURNS: Credibility of the budget	Score 2007	Score 2010 (*)
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	B
PI-2	Composition of expenditure out-turn compared to original approved budget	D	C
PI-3	Aggregate revenue out-turn compared to original approved budget	B	B
PI-4	Stock and monitoring of expenditure payment arrears	A	A
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	**Score 2007**	**Score 2010**
PI-5	Classification of the budget	B	B
PI-6	Comprehensiveness of information included in budget documentation	B	A
PI-7	Extent of unreported government operations	D+	D+
PI-8	Transparency of Inter-Governmental Fiscal Relations	B	B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+	C+↑
PI-10	Public Access to key fiscal information	D	C
	C. BUDGET CYCLE	**Score 2007**	**Score 2010**
	C (i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	A	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C↑
	C (ii) Predictability & Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	B	B+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	B
PI-15	Effectiveness in collection of tax payments	NS	NS
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	B
PI-17	Recording and management of cash balances, debt and guarantees	B	B↑
PI-18	Effectiveness of payroll controls	B+	B+
PI-19	Competition, value for money and controls in procurement	C+	C+
PI-20	Effectiveness of internal controls for non-salary expenditures	C+	B+
PI-21	Effectiveness of internal audit	C+	B+
	C (iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B+	B+
PI-23	Availability of information on resources received by service delivery units	(Regional PEFA)	(Regional PEFA)
PI-24	Quality and timeliness of in-year budget reports	C+	B+
PI-25	Quality and timeliness of annual financial statements	C+	C+
	C (iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+	C+↑
PI-27	Legislative scrutiny of the annual budget law	D+	D+↑
PI-28	Legislative scrutiny of external audit reports	C+	C+
	D. DONOR PRACTICES	**Score 2007**	**Score 2010**
D-1	Predictability of Direct Budget Support	C	NS
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C	C
D-3	Proportion of aid that is managed by use of national procedures	NS	C

(*) For a detailed explanation of the changes refer to Table 1 in Annex 1

[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 The Government of Ethiopia agreed on carrying out a PEFA in 2010 as part of the dated covenants for the next phase of the Protection of Basic Services (PBS) project[3]. The exercise will gauge the quality of public financial management (PFM) at the federal and sub-national levels. Aside from providing the Government of Ethiopia with an assessment of Ethiopia's PFM in its own ongoing efforts to reform and improve the quality of its financial management systems, it is intended that the information/analysis included in this PEFA to be of value to the donors. To this end, it is important to note that this assessment has involved active diagnostic work in the regions in order to obtain an accurate understanding of the current state of affairs and, in particular, the progress of reforms that have been undertaken since the 2004 FY.

This PEFA assessment has been part of the Comprehensive Integrated Fiduciary Assessment (CIFA) which overall includes five components. The other components of the CIFA include: Country Procurement Assessment Report (CPAR), fiduciary and risk assessment, institutional and capacity building and district (woreda) level PFM diagnostics. The CIFA is coordinated by the World Bank. Other development partners finance the other components of the CIFA. The EU is financing the PEFA part of the CIFA.

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 Preparation and Administration Department of the Ministry of Finance and Economic Development (MOFED). The process was facilitated wth the support and active participation in the exercise of the Head of the Central Accounts Department (CAD) and the Head of Treasury 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)[4] 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 detail providing very useful comments.

At the beginning of the assignment, the EU Delegation[5] 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 required documentation. The EC has also reviewed the first draft providing useful comments.

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[3] For more details refer to *3.7* on Donors practices

[4] These took place on a regular basis during the period of February 19th through March 16th, 2010

[5] Christoph Wagner, the Head of the Economic, Social & Trade Section, Benedetta Musillo and Ephraïm Zewdie, the economists also provided basic information (and input) on the assignment.

The World Bank and the IMF were informed of the exercise and two working sessions took place with these two agencies. Experts of both institutions have thoroughly reviewed the June 2010 draft (the 3rd one) and provided very detailed comments.

The PEFA Secretariat (World Bank) in Washington DC was informed of the exercise from the outset. The Secretariat received the June 2010 draft report and provided its detailed comments on September 9, 2010.

The first part of the work as well as part of the drafting of the preliminary Report[6] was carried out in Addis Ababa, the Federal Democratic Republic of Ethiopia during the field period of February 19th through to March 19th. The comments received from the EU Delegation, from the IMF, the World Bank, from the PEFA Secretariat and from the Government were incorporated gradually between April and September 2010.

Methodology The methodology of collecting data consisted of following steps:
- Putting together the existing documentation on PFM;
- Collecting statistical data for the EFY 1999, 2000 and 2001 (2006/07-2007/08- 2008/09);
- 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 March 16th, 2010.

No interviews or visits were carried out to individual PEs or autonomous agencies.

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 Union, the Government of the Federal Democratic Republic of Ethiopia

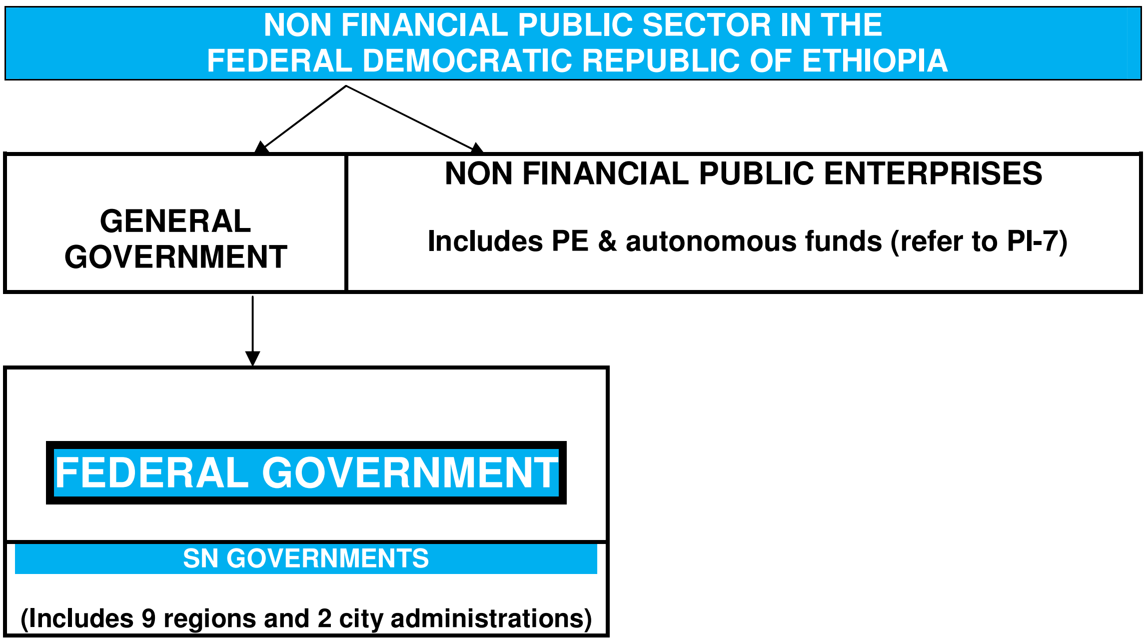
[6] Giovanni Caprio from LINPICO and IDC, France and Getnet Haile are the authors of the report. Giovanni Caprio is responsible for its content.

with the assistance of donors is welcome to review and complete on-going 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.

Scope

As presented below, the present PEFA exercise will cover the Federal Government exclusively. The Federal Government includes 96 budget entities or budget institutions (BI) such as ministries or agencies[7]. Actual expenditures of the Federal Government represented 62.8% and 59.2% of total expenditures of the General Government in EFY 1999 (2006/07) and EFY 2000 (2007/08) respectively. In EFY2001 (2008/09) expenditures (estimates) of the Federal Government represented about 63.5% of total General Government expenditures[8].

THE NON FINANCIAL PUBLIC SECTOR AND THE SCOPE OF THE ASSESSMENT



[7] Budget Manual (2007), pages 67 and following,

[8] Calculations made from actual data on federal expenditures provided by the Accounts Department in MOFED and from data on expenditures of the General Government included in the IMF, Report No. 09-296, September 2009, page 19

2. Country background information

2.1 Economic Context, Development and Reforms

The Federal Democratic Republic of Ethiopia, with a population of 80.7 million (2008)[9], is the second most populous country in Sub-Saharan Africa. The Constitution establishes a Federal and Democratic State Structure[10]. The country is divided into nine ethnically based administrative regions (or states) and subdivided into sixty-eight zones and two chartered cities (City Administration): Addis Ababa and Dire Dawa. It is further subdivided into 550 *woredas* and several *special woredas*. At US$340 (average for the 2007-09 period), Ethiopia's per capita gross domestic product (GDP) is much lower than the sub-Sahara African average[11].

Over the past two decades, there has been significant progress in key human development indicators: primary school enrolments have almost quadrupled, child mortality has almost been cut by one third, and the number of people with access to clean water has increased by about 50%. More recently, poverty reduction has accelerated. The poverty headcount, which stood at 56 % in 1999/00, fell to 39%% in 2006/07[12]. Notwithstanding and despite these positive results it appears that Ethiopia will not achieve some of the Millennium Development Goals (MDG) by 2015, given the country's very low starting point[13].

TABLE 1: MAIN SOCIAL INDICATORS (1980-1985/1999-2005)

INDICATORS	1980-85	1990-95	1999-05	Sub-Saharan Africa	Low-Income Countries
Primary school enrolments	--	22	69	--	80
Life expectancy at birth	--	48	38	29	39
Infant mortality rate (per 1000 live births)	123	107	80	100	80
Access to improved water sources	--	23	36	56	75

Source: *Interim Country Assistance Strategy for the Federal Democratic Republic of Ethiopia*, WB Report 43051-ET, April 2008, Annex 5

9 World Development Indicators
10 *Constitution* (1994), Art 1
11 WB Country Brief 2010
12 *Idem*
13 Ethiopia will unlikely achieve the two MDG of eradicating extreme poverty and hunger, and of developing a global partnership for development

In recent years, Ethiopia has been one of the fastest growing non-oil economies in Africa with double digit growth and continued improvement in access to basic services. But its robust growth performance and considerable development gains from 2002 to 2007 period came under threat in 2008 with the emergence of twin macroeconomic challenges of high inflation and a difficult balance of payments situation (refer to table below). The problem was exacerbated by the high fuel and food prices in the global market and failure of rain. These threats have moderated in recent months. The 12-month end-of-period inflation rate, after reaching a historical peak of 55.3% in July 2008 has fallen to 3.1% in July 2009.

Although there have been some improvements in foreign exchange reserves, from barely four weeks of imports cover in October 2008 (US$ 764 million) to the equivalent of seven weeks of imports at the end of June 2009 (US$ 1.5 billion), the situation remains tenuous. The government of Ethiopia has taken a number of steps in recent months (e.g., tightening fiscal policy and reducing government's domestic borrowing, mitigating the impact of high food prices on the poor, reducing the domestic borrowing of public enterprises, tightening money supply, and gradually depreciating the local currency) to address the macroeconomic problems[14].

TABLE 2: ETHIOPIA: BASIC MACROECONOMIC DATA
EFY 1999 (2006/07) – EFY 2002 (2009/10)

INDICATORS	EFY 1999 (2006/07)	EFY 2000 (2007/08)	EFY 2001 (2008/09) (*)	EFY 2002 (2009/10) (**)
GDP at Factor Cost (Real annual change)	11.5%	11.6%	7.5%	7.0%
Consumer Price Index (End of Period)	15.1%	55.3%	3.1%	9.8%
Terms of Trade (Deterioration -)	-1.3%	2.1%	6.7%	4.1%
Aggregate Fiscal balance, including grant (In % of GDP)	-3.6%	-2.9%	-2.3%	-3.0%
Current Account Balance in % of GDP (Including Official Transfers)	-4.5%	-5.7%	-5.6%	9.3%
Public debt	40.7%	36.5%	32.8%	37.5%
Of which external debt	*28.9%*	*24.6%*	*18.0%*	*18.0%*
(*) Estimates (**) Projections				

Sources: IMF Country Report No. 09/296, September 2009, page 18 Table 1

[14] WB Country brief 2010

Good progress was made in the first half of 2009/10 in maintaining macroeconomic stabilization. Macroeconomic conditions continued to improve while broad-based growth momentum has been maintained. Overall, inflation decelerated sharply to 7.1% at end-2009 following very high inflation in 2008 and early 2009. But non-food inflation remains close to 20% and has been rising in recent months[15].

The IMF believes that economic outlook for 2010 and 2011 remains generally favourable with continued strong growth expected an external debt under control (Ethiopia's public external debt has risen in recent years on large physical infrastructure investments, but remains within the moderate risk range).

2.2 Development and Reforms

a) Development and poverty reduction strategies

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[16]. 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. The implementation of PASDEP will end in July 2010. The authorities are elaborating a new plan for Growth and Transformation for the period 20010/11-2014/15. Given that the final version of the new plan was not ready at the time of the PEFA evaluation, the PEFA team was unable to consult this draft version.

b) Fiscal policy and fiscal development

Past fiscal performance in percent of GDP indicates a decreasing aggregate deficit during the period EFY 1999 (2006/07) and EFY 2001 (2008/09) with total revenue and grants decreasing during the same period. Capital expenditures decreased significantly during the period despite the authorities 'commitment for the implementation of PASDEP (following table). Current expenditures as well as

[15] IMF, Press statement from March 2010 mission on Article IV consultation and the first review under the program supported by the Exogenous Shocks Facility

[16] 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

interest on the foreign debt as a percentage of GDP have also gone down during the period.

On the financing side, there is an increase in external net borrowing from the Government and a significant decrease in domestic financing. As a result, the net financing decreases from 3.6% of GDP to 2.3% during the period under consideration. The IMF considers fiscal performance in 2009/10 to have been commendable with higher revenues and lower domestic financing than targeted[17].

TABLE 3: FEDERAL GOVERNMENT BUDGET
EFY 1999 (2006/07) EFY 2002-(2009/10)
(In percent of GDP)

	EFY 1999 (2006/07)	EFY 2000 (2007/08)	EFY 2001 (2008/09) (*)	EFY 2002 (2009/10) (**)
TOTAL REVENUE & GRANTS	**17.1**	**16.2**	**15.3**	**15.4**
- *Own Revenue*	*12.7*	*12.1*	*11.7*	*12.2*
- *Grants*	*4.4*	*4.0*	*3.7*	*3.2*
TOTAL EXPENDITURE	**20.7**	**19.1**	**17.7**	**18.4**
Current expenditure (***)	10.0	9.3	8.2	8.3
Of which:				
- *Interest*	*0.7*	*0.5*	*0.4*	*0.5*
Capital expenditures (***)	10.7	9.8	9.4	10.1
AGGREGATE DEFICIT (Including grants, special programs & unidentified financing)	**-3.6**	**-2.9**	**-2.3**	**-3.0**
AGGREGATE DEFICIT (Excluding grants, including grants, special programs & unidentified financing)	**-8.0**	**-7.0**	**-6.0**	**-6.3**
NET FINANCING	**3.6**	**2.9**	**2.3**	**3.0**
- *External (net)*	*1.1*	*1.0*	*2.2*	*1.6*
- *Domestic (net)*	*3.6*	*2.7*	*0.1*	*1.4*

Sources: Own calculations from IMF Country Report No.09/296, September 2009, Tables 2 & 3

(*) Estimates; (**) Projection; (***) excluding special programs

In the medium-term fiscal policies will greatly reflect the on-going exogenous shocks Facilities program with the IMF. In this context the authorities are committed to maintaining a tight fiscal stance and intend to restrain domestic borrowing by the public sector to 3 percent of GDP. They intend to cut expenditures if domestic revenue falls below target and to reduce domestic borrowing levels if aid inflows exceed budgetary projections.

[17] IMF, Press statement from March 2010 mission on Article IV, *Idem*

c) Allocation of resources

Regarding the allocation of main resources for the period EFY1999 through EFY 2001 an increasing trend (a significant one) is to be seen for Construction and Education translating in part into more effective pro-poor expenditures. For water resources a similar tendency is to be observed (although less accentuated). However expenditures for health remained constant during the period and those for agriculture decreased significantly.

TABLE 4: ACTUAL BUDGETARY ALLOCATIONS BY SUB-FUNCTIONS
EFY1999 (2006/07) – EFY2000 (2008/09)
(In percent of total)

I. MAIN SUB-FUNCTIONS	EFY 1999 (2006/07)	EFY 2000 (2007/08)	EFY 2001 (2008/09) (preliminary)
Defence	11.45%	15.13%	10.86%
General Public Services	3.74%	3.00%	2.13%
Agriculture and Natural resources	17.45%	15.60%	14.00%
Water resources	4.61%	4.00%	4.78%
Transports & Communication	0.8%	0.8%	1.01%
Construction	15.14%	20.0%	21.3%
Education & Training	15.40%	14.5%	19.75%
Health	5.60%	8.00%	5.22%
TOTAL ALL SECTORS	100%	100%	100%
II. ECONOMIC CATEGORIES	**EFY 1995 (2002/03)**	**EFY 1996 (2003/04)**	**EFY 1997 (2004/05)**
Debt service payments	5.4%	4.00%	5.99%

Sources: Own calculations from data provided by the Accounts Department, MOFED

d) 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[18]. These entities are SN Governments 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.

2.3 Description of the legal and institutional framework for PFM

a) Legal

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)[19].

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 of Peoples' Representatives in the budget process for some key elements:

- "…*it shall (*the House*) ratify the Federal budget*"[20]
- *"It shall establish standing and ad hoc committees as it deems necessary*

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[18] 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).

[19] 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.

[20] Art. 55,*11*

to accomplish its work'[21]

The *Constitution* considers the Auditor General and its role[22]. 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 below:

Box 1: MAIN LAWS, PROCLAMATIONS & REGULATIONS FOR PUBLIC FINANCIAL MANAGEMENT (*)

EXISTING LEGISLATION

- 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. 8/1997
- Proclamation on the establishment of Ethics and Anti-corruption Commission (235-2001)
- Proclamations No. 68/1993 and No.285/2002 for Value added Tax (1993 and 2002)
- Proclamation No. 286/2002 on income and profits (2002)
- Proclamation No. 286/2002 for income tax on employment (2002)
- Proclamation No. 286/2002 for rental income tax (2002)
- Proclamation No. 286/2002 for capital gains tax (2002)
- Regulation No. 78/2002 on Income Tax (20020
- 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

RECENT LEGISLATION

- Creation of ERCA Proclamation no 587/208, 14 July 2008
- Proclamation 622/2009 on Customs (2009)
- The Federal government of Ethiopia Financial Administration Proclamation No 648/2009, August 6, 2009
- The Ethiopian Federal Government procurement and Property Administration proclamation No. 649/2009, Sep 9, 2009

LEGISLATION TO BE ADOPTED

- New Proclamation on external audit

(*) 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)

[21] Art. 55,*19*. This refers to the Budget and Finance Affairs Committee and to the Public Accounts Committee (PAC)
[22] Art. 101

In August 2009, the Parliament passed a new proclamation on the financial administration of the federal government (648/2009). The new law focuses more on effective procedures for budget preparations, tax collection, maintenance of accounts, internal audit and management of public resources and debt. Following the enactment of the new proclamation, MOFED elaborated a financial administration regulation and directive to guide the implementation of the new proclamation. Specialized trainings have been organised to help public servants at different levels implement the new law.

Also, in September 2009 the Parliament approved a new proclamation on procurement and property administration (649/2009). The new law aims at increasing transparency, efficiency and greater economy in public procurement and public property management.

A new audit proclamation has been drafted and submitted to Parliament for ratification. The focus of the new audit proclamation is to bring more independence of the Office of the Auditor General as far as human resource issues are concerned. To note, in this context, that the low external audit coverage is mainly a result of the human resource problems of the federal and regional auditors general (refer to PI-19).

b) Institutional framework[23]

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 MOFED plays the key role in this process. It is involved in the elaboration of the Macro Economic and Fiscal Framework (MEFF)[24]. 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 is carried out by the Office of the Auditor General (OFAG) and by the Council of Peoples' Representatives.

[23] Most of the information for this paragraph was provided by the Budget Preparation and Administration Department, the Central Accounts Department and by Treasury (MOFED)
[24] 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.

For PI-1 and PI-2 the comparison has been carried out using primary expenditure. The latter are total expenditures (recurrent and investment) but exclude two expenditure categories over which the government will have little control. Those categories are (a) debt service payments (interest only but no amortization), which in principle the government cannot alter during the year while they may change due to interest and exchange rates movements, and (b) donor funded project expenditure (loans and grants), the management and reporting of which are typically under the donor agencies' control to a high degree.

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) Difference between real primary expenditure and originally-budgeted primary expenditure

The following two tables present a comparison of expenditures against the approved budget for the EFY1999 (2006/07)-EFY2001 (2008/09). The average variance between actual primary expenditure and the original budgeted amount was below 10% during the 3 years under review. The variances for the latter were mainly due to greater deviations (for the first 2 years) of primary capital expenditures which were more than twice as much as the deviations in primary recurrent expenditures. This trend is particularly accentuated for the first year (EFY1999-2006/07). It reflects a relatively lower execution rate (86.97%) for projects in general for that year and in particular for both the construction (75.32%) and education sector (79.02%). These two sectors represented about 45% of actual primary capital expenditures in (EFY1999-2006/07). For the second year (FY20002007/08), the execution rate for project is also low but not as much as in EFY1999. The agricultural sector (93.5%) and again education (77.3%) are the ones who contributed to this. These two sectors represented about 40% of total capital expenditures during the same year. For the second year (EFY2000-2007/08), the increase in the price of oil[25] had certainly an impact in driving the variation in recurrent expenditures for the year. There were significant increases in recurrent expenditures for defence and education, two sectors that represented about 70% of actual recurrent expenditures for the year (excluding regions subsidies). Other relatively less significant sectors such as Justice and Security, water Resources and Health saw an increase in the recurrent expenditures as well.

TABLE 5: BUDGET EXECUTION RATE FOR TOTAL PRIMARY EXPENDITURES, FOR RECURRENT PRIMARY EXPENDITURES AND FOR CAPITAL PRIMARY EXPENDITURES FOR EFY1999, EFY2000 AND EFY 2001 – (In millions of ETB)

YEARS	EXPENDITURES	APPROVED BUDGET (I)	ACTUAL (II)	EXECUTION RATE (III = II / I)	DEVIATION IN PRIMARY EXPENDITURE (IV = 100% - III)
EFY 1999 (2006/07)	Recurrent expenditures (- public debt payment)	15856.8	15079.4	95.09%	4.91
	Capital expenditures (- foreign project grants & loans)	10249.4	8914.9	86.97%	13.03
	TOTAL	**26196.2**	**23994.4**	**91.91%**	**8.1**
EFY 2000 (2007/08)	Recurrent expenditures (- public debt payment)	22034.15	21379.1	97.07%	2.93%
	Capital expenditures (- foreign project grants & loans)	11506.09	10801.7	93.87%	6.13%
	TOTAL	**33540.5**	**32180.8**	**95.95%**	**4.1%**
EFY 2001 (2008/09)	Recurrent expenditures (- public debt payment)	27532.3	25663.3	93.21%	6.79%
	Capital expenditures (Minus foreign grants & loans)	14258.01	13966.9	97.95%	2.05%
	TOTAL	**41790.3**	**39624.3**	**94.82%**	**5.2%**

Source: Accounts Department MOFED (IBEX data)

[25] Between 2007 and 2008 the real price of the barrel of crude oil went from US $ 66.97 to US $ 91.77, a 37% (real) increase.

Overall when the deviations in total primary expenditures are considered (table 5) the indication is that the budget approved by the House of Representatives was a reasonably accurate estimate of overall actual expenditure. A comparison with the 2007 PEFA (for the three-year period EFY1995 2002/03 - EFY1997 2004/05) reveals at first sight a lower performance for aggregated expenditure out-turns. However this should be put into context. In fact in the 2010 PEFA for the period under consideration the deviation was more important (8.1%) than the deviation for the first year of the 2007 PEFA (5%). In the 2010 PEFA for the second and the third year the deviations were higher than for the same of the 2007 PEFA but difference was relatively low (4.1% instead of 3.8% and 5.2% instead of 3.3%).

TABLE 6: DEVIATION IN THE EXECUTION OF FEDERAL BUDGET EXPENDITURE AND VARIANCE IN THE COMPOSITION OF PRIMARY EXPENDITURE INCLUDING REGION SUBSIDIES - EFY 1999-2000-2001 (2006/07-2007/08-2008/09)[26]

(Percentage of originally budgeted expenditure)

Year	For PI-1 Total expenditure deviation	Composition expenditure variance	For PI-2 Variance > total deviation
2006/07	8.1%	13.8%	5.7%
2007/08	4.1%	9.8%	5.7%
2008/09	5.2%	6.5%	6.5%

Source: Own calculations from data provided by the Central Accounts Department (CAD) of the MOFED-(Annex 4, Tables 1, 2 & 3). The data are audited for EFY 1999 and EFY 2000.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-1	**A**	**B**	**The good performance in the execution of budget expenditures for the period EFY1995-EFY1997 (2002/2003-2004/2005) was not confirmed in 2010 for the period of EFY1999-EFY2001 (2006/07-2008/09). However the difference in performance was only significant for EFY2001 when compared to EFY1997 due to external shock (significant increase in petroleum prices). Therefore this is not a new trend.**	For the comparison of data the same set of data was taken into consideration

[26] 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[27] Budget credibility can also be evaluated with the extent to which entities receive the resources originally planned.

(i) Degree to which the variation in the composition of primary expenditure has superseded the global deviation in primary expenditure (as defined in PI-1) in the past three years

The deviation between budgeted amounts and actual out-turns by functional budget head was between 5.7% and 6.5% as indicated above. The outcomes indicate that the budget heads received resources as originally planned. The variance was high in EFY1995 (2002/03)-EFY 1997 (2004/05), 14.3%, 16.0% and 12.5%. The improvement may indicate more sustained financing of government programs.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-2	**D**	**C**	**For the period of EFY1999-EFY2001 (2006/07-2008/09) the variance in expenditure composition has improved (decreased) with regard to the same in EFY1995-EFY1997 (2002/2003-2004/2005)**	For the comparison of data the same set of data was taken into consideration

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) Real internal income collection in comparison with estimates in the original approved budget

As can be seen from following table, once in the three EFY1999 -EFY2001 (2006/07-2008/09) actual federal revenues represented less than 94% of budgeted revenues. It should be noted that execution of current revenues at the Federal level improved significantly during the three-year period.

[27] The existing administrative classification is based on 4 functions (refer to PI-5). For the calculation of PI-2 the sub-functions (of the functions) of the administrative classification (20 sub-functions) has been used (refer to Annex 3, Tables 1, 2 & 3).

TABLE 7: AGGREGATE EXECUTION OF CURRENT REVENUES AT THE FEDERAL LEVEL EFY1999-EFY2001 (2006/07-2008/09)[28]

(Percentage of originally budgeted revenues)

	EFY 1999 (2006/07)	EFY 2000 (2007/08)	EFY 2001 (2008/09)
ACTUAL CURRENT REVENUES	87,95%	96,23%	99,30%

Source: Own calculations from data provided by the Central Accounts Department (CAD) of the MOFED. The data are audited for EFY 1999 and EFY 2000-(Annex 4, Table 4)

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-3	**B**	**B**	**Based on the scoring for the period of EFY1999-EFY2001 (2006/07-2008/09) aggregate revenue outturn compared to original approved budget has not changed with regard to the same in EFY1995-EFY1997 (2002/2003-2004/2005). Despite the same scoring, performance for this indicator has improved because for 2 of the 3 year period in 2010 performance was better than in 2007**	

PI-4: Stock and monitoring of expenditure payment arrears The Federal Democratic Republic of Ethiopia has a long tradition of fiscal discipline and for many years the country has not built up arrears of salary and other expenditures (including arrears on external loans). Arrears are not at all a systemic issue. They are not dealt with in the existing financial legislation and the country has no official definition of arrears.

Invoices for goods and services received by BI that are not paid on July 7th (end of EFY) should be paid in the following 30 days (or the first 30 days of the new EFY)[29] and not later than August 6th. This 30-day period is called «Grace Period». It should be noted that grace period payments at the EFY are not arrears. They may include arrears although this is unlikely as pointed out by Treasury, Budget and Accounts Department[30]. Grace payment expenditures that are not paid by August 6th become arrears from a technical point of view.

[28] Refer to Annex 3 (Table 4) for the details to calculate the aggregate execution of current revenues.
[29] Proclamation No. 57/1996, 27 and Proclamation No. 648/2009
[30] They exclude payments in dispute and court cases

In this context every year, at the end of each EFY, Treasury consolidates the amount of grace payments received from Federal BI[31]. Eligible payments follow by August 6th as required by law[32]. All the operations are carried out through the IBEX system.

(i) Stock of expenditure payment arrears

As can be seen from the table below, grace period expenditures for the last 3 EFY (1999 through 2001) or for the period 2006/07-2008/09 that may have included arrears were relatively low at the end of the EFY (less than 2%) and were all paid by August 6th of the following EFY.

TABLE 8: GRACE PERIOD PAYMENTS

(In million of ETB and in % of total expenditures)

	EFY 1999 (2006/07)	EFY 2000 (2007/08)	EFY 2001 (2008/09)
1. Expenditures not paid at the end of the EFY (July 7th)	303.24	202,57	160.5
(As a % of total expenditures)	*1.32%*	*0.73%*	*0.4%*
2. Payments made by the end of the grace period (August 6th) including funds returned to the treasury	303.24	202.57	160.5

Sources: IBEX, Departments of Treasury and Final Accounts

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

From account 5001 (from the IBEX system) it is possible to see whether all payments have been paid by August 6th. The amount not paid by that date becomes an arrear and these are clearly identified by the system (which prevents the build up of arrears in any case).

[31] The accounting code for grace period payments is 5001. The amount of these payments is known by July 7th

[32] Proclamation No. 57/1996, 27 and Proclamation No. 648/2009, *idem*

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-4	**A**	**A**	**No change in performance. There are no arrears and these continue not to be a systemic problem**	--
I)	A	A	No change in performance with arrears still not being a systemic issue	
ii)	A	A	No change of performance with regard to the previous evaluation. Existing mechanism allows to identify arrears through the IBEX system	

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.

In Ethiopia, there are eleven different categories that are used to classify expenditures. These eleven categories are the major divisions in the budget and allow budgeted and actual expenditure data to be used and analyzed according to the reporting needs of the Government and of other users. Each budget category includes a class of account or level in the budget category hierarchy of the coding system. In practical terms, that indicates that all budget categories are coded.

(i) The classification system used to formulate, execute and inform about the central government budget.

The budget formulation and execution is essentially based on the administrative classification based under four (4) functions. There are currently four (4) functions of expenditure: *Administrative and General (1), Economic (2), Social (3), and Other (4)*. The four functions are further divided into twenty two (22) *sub-functions*. These 22 sub-functions only approximately match the 10 COFOG functions, not the 69 sub-functions.

The budget is also based on the economic classification system (e.g. personnel emoluments) which is shown under each public body (and by sub-agency within each public body where relevant). The budget classification system includes programme and sub-programme codes, though these are not yet used, as programme budgeting has not yet been adopted.

Economic areas and sub-areas of expenditures are then available for each Public Body. There are four (4) economic areas of expenditures: *Personnel services* (1), *Goods and Services* (2), *Fixed assets and construction* (3) and *Subsidies, grants and payments* (4). The economic classification that is implicit uses GFS standards.

Overall the budget classification system does not correspond exactly to COFOG standards, but broadly meets GFS standards (in terms of economic classification).

Budget data on the various institutions is available under the sub- functions each of them including a group of Public bodies (budget categories). This provides implicitly budget data in administrative classification for both budget formulation and execution.

The different budget classifications and their application are summarized below:

TABLE 9: BUDGET CLASSIFICATION

Budget classification	Formulation	Approval	Execution
Administrative	Yes	Yes	Yes
(Functional)	Yes	Yes	Yes
(Sub-functional)	Yes	Yes	Yes
Economic (GFSM)	Yes	Yes	Yes

Sources: Last completed budget EFY 2001 (2008/09) and Budget Manual, January 2007

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-5	**B**	**B**	**There is no progress in performance between 2007 and 2010 for the area of budget classification. It should be pointed out that Ethiopia performs relatively well under this indicator with the current classifications reflecting the budget reforms carried out in the late 1990 and the beginning of 2000.**	--

Reform

The gradual introduction of performance budgeting will require an adjustment of both the existing Chart of Accounts and budget classifications. In addition the IBEX system should also be revised along the same lines (Refer to PI-12).

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[33] as submitted to Parliament (budget estimates) includes:

TABLE 10: INFORMATION IN BUDGET DOCUMENTATION

Documentary Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and interest rate estimates, at the very least.	Yes	Volume I for budget EFY 2002-2008/09: forecast of economic growth, past trends in revenue and expenditures, measures to curb inflation, export and import growth, inflation, exchange rates
2. Fiscal deficit.	Yes	*Idem*
3. Deficit financing	Yes	*Idem*
4. Public debt balance.	No	--
5. Financial Assets.	No	--
6. Results of previous budget exercise	Yes	This information is included in Volume I (only available in Amharic) of the budget documentation (EFY 2002-2009/10)
7. Results of the current budget exercise (2008/09).	Yes	*Idem*
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	*Idem*
9. Explanation of the budget implications of new policy initiatives.	Yes	*Idem*

i) Proportion of previous information contained in the budgetary documentation published most recently by the central government.

The most recent budget documentation of EFY2010 (2009/10) fulfils 7 of the 9 information benchmarks

[33] The Budget documentation has 3 Volumes, of which only Volume III is available in English. The first Volume is in Amharic and it is the only volume relevant for this indicator. Volume I for the budget of EFY 2002 (2009/10), the last one presented to Parliament has been consulted for the evaluation of this indicator.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-6	**B**	**A**	**There is a change in performance with regard to the 2007 evaluation due to the fact that summarized budget data for both revenue and expenditure (item 8) are included in the budget documentation.**	--

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

i) Level of extra-budgetary expenditure (not including projects financed by donors) that is not declared – in other words that does not appear in fiscal reports.

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:

TABLE 11: EXTRA-BUDGETARY FUNDS AND YEARLY EXPENDITURE EFY 2000-2001 (2007/08-2008/09)

(In million of ETB)

FUNDS	EFY 2000 (2007/08)	EFY 2001 (2008/09)
Road Fund	1103.95	1144.65
Pension & Social Security Funds	964.7	877.9
Fuel Price Stabilization Funds	N.A.	999.7
Disaster Prevention & Preparedness Fund	--	--
Industrial Development Fund (IDF)	737.2	678.1
Sugar Fund	334.4	878.6
Women Development Fund	0.35	0.41
TOTAL FUNDS EXPENDITURE	3140.6	4579.4
FUNDS EXPENDITURE AS A % OF TOTAL EXPENDITURE[34]	**11.31%**	**11.55%**

Source: Data provided by the Treasury Department of MOFED

[34] Team's calculation based on actual expenditures data provided by Accounts Department MOFED

As can be seen from above table, Funds expenditure as a percentage of total Federal Government expenditures was more or less constant during EFY2000 and 2001 being equivalent to about 11% of total expenditures in the same years.

ii) Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.

The current accounting system clearly differentiates between two broad categories of development aid: a) external assistance or grants (code 2000-2999) and b) external loan (code 3000-3999). External assistance includes multilateral institutions (code 2000-2199), bilateral grants of which Protection of Basic Services (PBS) and Highly Indebted Poor Countries Debt Relief assistance (HIPC) (code 2200-2399). External loans include loans from multilateral institutions (3000-3199) and bilateral loans (code 3200-3399). Reporting for the activities of the donors and agencies (50 for assistance or grant and 12 for loans) are reflected in the Federal budget and in the IBEX system[35]. A differentiation is also made based on how the funds reach the beneficiaries. For channel 2 funds go directly to the implementing agencies through the budget. Reporting of these funds is 100% complete and reflected in IBEX[36]. Most of channel 3 funds (more than 50% in value in any case) that are those funds that go directly to the beneficiary are also reported[37].

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-7	**D+**	**D+**	**There is no change in performance for PI-7.**	
i)	D	D	No change in performance	Percentage of extra budgetary expenditures to total expenditures is in 2010 a bit lower than in 2007. It still represents more than 10% of total expenditures though
ii)	C	B	Reporting has improved with regard to 2007 particularly for channel 3 funds	

[35] Central Accounts Department and of the Budget Preparation and Administration Department of MOFED, EFY2000 and EFY2001 Budget Proclamations and actual data for external assistance and loans provided by the Central accounts Department

[36] This was confirm by the Head of the Accounts Department at MOFED, Ato Degu during the September 16th workshop in Addis Ababa.

[37] *Idem*

PI-8: Intergovernmental Fiscal Relations[38]

i) Transparent systems based on regulations governing horizontal allocations between sub-national governments of unconditional and conditional transfers from central government (budgeted and real allocations).

It is a constitutional right of the regions to receive share of the Federal Government revenue[39]. The share of the federal budget going to the Regions (vertical allocation 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. The horizontal allocation of the transfers from the federal budget amongst the Regions is transparent and is determined by a new formula adopted in EFY 2000 and applied in EFY 2001 (July 2008). The new formula takes 14 items into consideration as well as level of per capita income and differences in expenditure needs. The World Bank's report "*Ethiopia-Public Finance Review-March 2009*" states that the old formula neither met its stated equity nor the efficiency objectives and with the implementation of the new formula the regional allocation has improved but only slightly. In any case it appears that at least 50% of transfers from the federal government are determined by transparent and rules based systems[40];

ii) Timely provision of reliable information to sub-national governments on the allocations to be made to them by central government for the following year.

The notification of annual budget subsidy to the regions should be made on February 8th of year *n* for budget year *n+1*[41]. This appears not be respected in practice. However regions have the information on subsidies on time and in any case ahead of completing their budget proposals[42];

iii) Degree to which consolidated general government fiscal data (at least on income and expenditure) is collected and made available, broken down by sectoral categories.

The Federal Government elaborates a consolidated budget of the general government (Federal plus regions plus city administrations) yearly. *Ex ante* (budget data) and *ex post* (actual budget data) in functional and sub-functional (and sectoral) classifications is available in this document which is finalized latest 15 months following the EFY-end.

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[38] This indicator assesses the fiscal relations between the Federal Government and the regions only.
[39] *Constitution* (1994), Art.95
[40] This is what comes out from the regional PEFA. The exercises for 5 regions were carried out following the exercise at the federal level.
[41] Revised Federal Budget Manual, Jan 2007, pages 38 and 42
[42] This is confirmed by all regional PEFA (Amhara, Oromia, SSNN, Harari and Benischangul)

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-8	**B**	**B+**	**Change in performance has occurred. A new formula for the horizontal allocation of subsidies to the regions has been introduced. In addition regions are informed on a timely basis on the subsidies to be received.**	
i)	A	A		
ii)	D	B	Improvement in performance	
iii)	A	B		

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.

Public enterprises play a key role in several sectors of the Ethiopian economy, notably the provision of infrastructure. Borrowing activities of public enterprises are now subject to strict monitoring to evaluate their macroeconomic impact, via an interagency committee that carries out a monthly review of enterprise borrowing. Monitoring of borrowing activities presumes a wider monitoring of activities as well as of accounting. This is done on a case by case basis and there is no consolidation of risk issues into a single report[43];

i) Degree of central government monitoring of the main autonomous public organisms and state companies.

The Privatization and Public Enterprise Supervising Agency (PPESA), an agency of the Federal Government, has the responsibility to monitor about 130 non-financial PE. Line competent ministries do the monitoring for the remaining four non financial PE (not under PPESA)[44]. 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 financials, PPESA intervenes. And in practice fiscal risk is monitored on a case by case basis when needed[45]. The same is carried out by line ministries for the remaining four PE.

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. It should be pointed out in this context that most of the usual AGAs (universities, hospitals, etc…) are classified as public bodies

[43] Refer also to IMF 09-296 Sept 2009, page 7
[44] *Idem*
[45] Communication of PPESA

reflected in the budget, although many have own revenues (also reflected in the budget).

ii) Degree to which central government monitors the fiscal position of the sub-national governments.

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[46]. Regions have no expenditures arrears[47]. Therefore fiscal risk is not really an issue at this point.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-9	**C+**	**C+↑**	**Despite the same scoring monitoring of PE has improved between 2007 and 2010**	Creation of an interagency committee (new committee)
i)	C	C↑	Despite the same scoring monitoring activities of PE has improved with the creation of an inter agency committee.	
ii)	A	A	No change in performance	

Reform

Reform of PE is on-going and is part of the dialogue under the current program between the Government and the IMF. This reform aims at monitoring potential fiscal risk of PE on a structural basis and at improving the exchange of fiscal information between PE and the Federal Government.

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 FDRE, the general public has access to following fiscal information[48]:

[46] "*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* of17/1997, Art. 75, 1) and 2)

[47] Sources: PEFA evaluations for Amhara, Benishangul, Harari, Oromia, SNNPR and for the City Administration of Addis Ababa.

[48] Communication of the Budget Department and of the Central Accounts Department of MOFED

TABLE 12: INDICATORS ON PUBLIC ACCESS TO KEY FISCAL INFORMATION

(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	**No.** The budget Law 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. The approved budget is also available on the MOFED website www.mofed.gov.et
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	**No.** The public has no access to the In-year budget execution reports. However the MOFED website www.mofed.gov.et provides quarterly information on the executed budget. Although this information is useful, it is NOT made routinely available within one month of its completion
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	**Yes.** The year-end financial statements prepared by the CAD of MOFED are available to the public. These are distributed to Ministry offices, National Accounts, to parliaments and copies are kept at libraries. Public has access to the report when they demand it and the information is disseminated to the public through the media.
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	**Yes.** Audit reports (in Amharic) from the OFAG are accessible and available to the public on www.OFAG.gov.et
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equivalent is published at least quarterly through appropriate means.	**No.** (Note: Publication of contracts awarded is planned in EFY 2002 on the new website of the Public Procurement Agency)
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	**Not applicable (refer to PI-23).**

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

The Government makes available to the public 2 of the 6 listed types of information.

Reforms

Art. 6 sub article of 5 and 6 of the new procurement directives in effect since June 1, 2009 (EFY 2002) calls for the publication of awarded contracts in the procurement agency web site to be launched in the second half of 2010.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-10	**D**	**C**	**Change in performance due to access of the OFAG audit report**	This reflects the need for more transparency at OFAG

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 which macro-economic, fiscal and sector policies are reflected;
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) Existence and observance of a fixed budget calendar

A new financial calendar was introduced in EFY 1996 (2003/04)[49]. It includes a planning and a budgeting cycle. The planning cycle has two main stages as presented in the following table:

TABLE 13: ANNUAL BUDGET PREPARATION CALENDAR (PLANNING CYCLE)

Planning Cycle	Dates	Responsible Institutions
Macroeconomic & Fiscal Framework (MEFF)	July 8th – November 10th	MOFED, Ethiopian Revenues and Customs Authority, National Bank of Ethiopia, Council of Minister
Notification of 3-year subsidy estimates to regions	November 25th	MOFED

Source: Directive 16, EFY1996 (2003/04), Budget Manual (Federal), January 2007

MOFED has the responsibility for preparing a rolling three year Macro Economic and Fiscal Framework (MEFF), to be approved by the Council of Ministers. The final stage of the planning cycle is the preparation of the Annual Fiscal Plan by MOFED.

Based on the approved MEFF MOFED will elaborate a rolling three year estimate of subsidies to each regional government and administrative council (using the existing formula). These entities will be notified regarding these estimates by November 25 each year.

The budget cycle has 5 main stages as presented below:

[49] Directive No 16, EFY 1996 (2003/04)

TABLE 14: ANNUAL BUDGET PREPARATION CALENDAR
(Main stages of budget cycle)

Budget Cycle	Dates	Responsible Institutions
Budget preparation	Not later than February 8th	Federal Budget Institutions
Notification of annual subsidy budget to regions	February 8th	MOFED
Budget circular issued and sent to Federal BI	February 8th	MOFED
BI elaborate budget request (proposals) based on ceilings in the circular	February 8th – March 22nd	Federal Budget Institutions
Preparation of draft recommended budget & review by Council of Ministers	March 23rd – May 22nd & May 23rd -June 2nd	Federal Budget Institutions & Council of Ministers
Legislative Approval	June 7-July 8	Council of People's Representative

Source: Directive 16, EFY1996 (2003/04), Budget Manual (Federal), January 2007

The above budget calendar is detailed and is generally respected. It allows Federal Budget Institutions six (6) weeks from receipt of the budget circular (call) to adequately complete their detailed estimates on time.

(ii) Guidance on the preparation of budget submissions

In the Federal Democratic Republic of Ethiopia, the budget circular or budget call is a letter from MOFED sent to all Budget Institutions. It clearly indicates expenditures ceilings (for both recurrent and capital expenditures) derived from the MEFF, which is pre-approved by the Council of Ministers. In addition the budget call also indicates the deadline for submitting the budget request. It also presents a review of the policies that affect the expenditures of public bodies as well as guidelines on treating external loan and assistance in general. Moreover guidelines for preparing the recurrent and capital budget submission are attached to the call[50];

[50] *Federal Budget Manual*, January 12, 2007,page 43

(iii) Timely approval of the budget by the Legislature

In the last three EFY, the budget has been approved before the beginning of the new EFY[51].

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-11	**A**	**A**	**Overall, the quality of the Budget preparation process has improved.**	
i)	A	A	--	
ii)	A	A	The quality of the budget preparation process has improved. Between 2007 and 2010 the BI staff has gained more experience. They are also better prepared due to the availability of support documents such as the Budget Manual which was issued in Jan 2007	2007 was not covered by the 2007 PEFA exercise
iii)	A	A	--	

PI-12 Multi-year perspective

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

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 October 26th)[52]. The MEFF has to be approved by the Council of Ministers and is a three-year forecast (not based on the functional or administrative classification) of:

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.

The focus of the Ethiopian MEFF is more on macro-fiscal aggregates and macro-economic perspectives than on government spending priorities. As

[51] July 7, 2007 for the budget of EFY2000 (2007/2008), July 4, 2008 for EFY2001 (2008/2009), July 6, 2009 for EFY2010 (Sources: Budget Department and *Negarit Gazeta* no 55 for 2007, no 58 for 2008 and no 55 for 2002)
[52] *Revised Federal Budget Manual* (January 2007), pages 39-40

currently established, Ethiopia's MEFF does not facilitate budget prioritization (spending) decisions.

(ii) Scope and frequency of debt sustainability analyses

Every year, during the first quarter of the EFY, the Credit Department of MOFED carries out foreign Debt Sustainability Analysis[53]. In addition a foreign Debt Sustainability Analysis for the Federal Democratic Republic of Ethiopia is carried out on a regular basis by the IMF, the WB and the Government of Ethiopia. This is a tri-partite exercise and MOFED figures on foreign debt are used. The last one of these exercises took place in July 2009. No Debt Sustainability Analysis for the domestic debt has been undertaken recently.

(iii) Existence of sectoral strategies with multi-annual determination of current expenditure and investment costs

The agriculture, water resources, transport and communication, construction, education and health sectors are costed. In EFY2000 and EFY2001 these sectors represented 39.9% and 38.50% of actual primary expenditures respectively and are not broadly consistent with the fiscal forecast[54]. For these sectors, investment decisions are explicitly linked to the sector strategies.

(iv) Links between the investment budget and future expenditure estimates

Budgeting for recurrent and capital expenditures are not two separate processes. The budget process is carried out within MOFED (the latter and the Ministry of Planning have merged since EFY1996 (2002/03). Notwithstanding commitments are being made to capital investments without adequately assuring financing for basic recurrent activities.

Reform

Program budgeting (or performance budgeting) including both recurrent and capital expenditures is being gradually introduced. For EFY2002 (2009/10) 58 Budget Institutions at the federal level presented shadow programs as a test. In addition some program performance indicators have also been identified. The introduction of real program budgeting which was foreseen for EFY2003 (2010/11) has been postponed to EFY2004 (2011/12). This will require a shift from line item budgeting as well as an adjustment of both the existing Chart of Accounts and budget classifications. In addition the IBEX system should also be revised along the same lines.

[53] Communication of the Credit Administration Department of MOFED

[54] Own team calculation from IBEX budget data provided by the Account Department of MOFED. These data refer only to the primary expenditure made by the Federal Government for these sectors and exclude expenditures made by regions for the same sectors.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-12	**C**	**C↑**	**Overall the ↑ for this indicator reflects progress in introducing multi-year program/performance budgeting. This progress in performance still does not reflect in the overall score.**	
i)	C	C↑	A MEFF in economic categories is still carried out as in 2007. In addition program/performance budgeting (multi-year budgeting) is being introduced.	Shadow programs have been presented by several BI for FY2002
ii)	C	C	Still no domestic debt sustainability analysis carried out.	
iii)	B	C	The change in score does not mean that performance has deteriorated. It appears only that the score for 2007 may have not been B but C.	
iv)	D	C	Performance has not improved in 2010 when compared with 2007. The 2007 score may have been C because the two budget processes (recurrent and capital were already merged).	

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[55];
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 facilitated, among other things, through clarity and accessibility to legislation and administrative procedures.

(i) Clarity and comprehensiveness of tax liabilities

In the Federal Democratic Republic of Ethiopia legislation and procedures used by the newly established Ethiopian Revenues and Customs Authority (ERCA) for all major taxes and customs duties are comprehensive and clear[56]. This is also the opinion of civil society representatives[57]. There exist several key proclamations with related amendments[58]. These are available on ERCA website (www.erca.gov.et). The discretionary power of the government

[55] Issues related to revenue and custom administration refer to revenues of the Ethiopian Revenues and Customs Authority (ERCA). ERCA is a merger between the Federal Inland Revenue Authority and the Ethiopian Customs Authority. As a new entity ERCA started its operation in EFY2001 (in July 2008). A new legislation for the establishment of ERCA was elaborated (Federal Negarit Gazeta, no. 40, 14 July 2008, Proclamation no. 587/2008).

[56] The Standard Integrated Government Tax Administration System (SIGTAS), a computerized integrated tax solution that is being used by ERCA. SIGTAS is an integrated package with all modules necessary to manage all taxes and licenses. It is fully integrated in the sense that it allows comparison between the taxes assessed and taxes collected. It also provides a detailed tax roll along with each taxpayer's assessments and payments and many management and statistical reports to keep ERCA constantly informed on the state of tax administration. For Customs activities uses the ASYCUDA++ system.

[57] According to representatives of the Chamber of Commerce in Addis Ababa the current legislation for income tax and customs is much in line with international standards. Problems in implementing the law may arise due to incompetent officials. The incompetence is the consequence of a high turnover in staff.

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

entities involved is fairly limited. This view is shared by representatives of the private sector[59];

(ii) Access by taxpayers to information on their tax responsibilities and administrative procedures

ERCA has 16 branches (excluding border posts) nationwide and each branch which deals either with customs duties or taxes has a customer service department. These departments have a service which provides free assistance to fill out tax or customs forms. In addition assistance is also provided on tax legislation, tax responsibility and administrative procedures. Moreover, they have various brochures available for taxpayers or exporters/importers. The brochures are in Amharic but some are also in English (for income and profit taxes). In addition, ERCA organizes tax forums twice a year for the benefits of taxpayers where the latter can provide feedback to the administration. Moreover ERCA finances daily radio program (several times per week) and weekly TV programs on tax issues. There is a tax forum twice a year. The ERCA has no hotline for customers but a very sophisticated web site with detailed information on taxes and a support section for taxpayers that have access to internet (www.erca.gov.et). Despite the above, representatives of civil society believe more should be done as far as access to tax information is concerned[60];

(iii) Existence and functioning of a tax appeals mechanism

There is an operational tax appeal mechanism. First the taxpayer can appeal it is at ERCA's level where taxpayer's complaints on penalties, principal and interests are heard. The other important forum for appeals is the Tax Appeal Commission organized independently from the tax office. It is organized under the Ministry of Justice. The Tax Commission is an independent body and has the authority to reduce or cancel the totality or part of tax liabilities and waive 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 in cash 50% of the disputed value of the assessed tax liability[61]. If the taxpayer is not happy with the decision of the Tax Commission he/she has the option to go to court. The existing structure with the Tax Commission operates well and with some degree of fairness[62]. However it appears that its decisions are not fully and effectively followed up[63].

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[59] Chamber of Commerce of Addis Ababa

[60] *Idem*

[61] Communication of ERCA

[62] Fairness appears to be an issue for the private sector. The latter believes that the entire process is not fair enough and that issue of fairness should be addressed (Chamber of Commerce of Addis Ababa)

[63] *Idem*

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-13	**B**	**B+**	**For this indicator change in performance occurred between 2007 and 2010**	
i)	B	B	Overall legislation was completed by the Proclamation on Customs 622/2009. Overall situation regarding legislation improved but discretionary powers of entities involved (ERCA) still fairly limited.	
ii)	B	A	The ERCA website is a much more detailed and sophisticated website than the previous one (www.mor.gov.et). This is undoubtedly an improvement and the ERCA is more aggressive in providing useful information to the public.	
iii)	B	B	Between 2007 and 2010 no change in performance occurred for this dimension. The existing tax appeal mechanism is about the same than the one in 2007.	

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) Application of controls in the taxpayer registration system

Each Taxpayer has a Tax Identification Number (TIN) and all taxpayers are registered in a complete database at the ERCA. The TIN is also used for issuing (TIN) certificates. The numbering program in a TIN of taxpayers which started in 2002 and was quite advanced in 2007 has now been fully implemented nationwide. Since November 2009 TIN is linked to the Custom ASYCUDA++ and SIGTAS. Occasional surveys of potential taxpayers are carried out on a yearly basis. The last one was carried out in EFY 2001. At the time of the federal PEFA evaluation a survey on companies was being implemented by ERCA in collaboration with the City Administration of Addis Ababa[64];

(ii) Effectiveness of sanctions for failure to register and declare for tax purposes

Penalties for non-compliance exist for almost all relevant areas and can reach up to 25% of the tax due. A taxpayer who is liable for penalty because of late filing or non-filing can ask for a waiver of the penalty which is determined in accordance to a table where the amount waived increases when the penalty

[64] Communication of ERCA

increases. Penalties are effective[65] although this may not always be the case due to lack of capacity nationwide.

(iii) Planning and control of tax auditing programmes
At ERCA there is an on-going program of tax audits and fraud investigation. For the tax audit activities a manual is used. These audits are based on risk assessment. There were no genuine audits in 2007 (not specific and not clearly based on risk criteria) and the tax audit program didn't really start until 2009. There were 3000 audits in 2009 for income tax and company tax (and up to August, 2010, 1700 tax payers audited).

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-14	**C**	**B**	**For this indicator there is an improvement in performance due essentially to the full implementation (nationwide) of the TIN system, to linkages to other systems and to better audit activities.**	
i)	C	B	To the extent the TIN project has been fully implemented nationwide covering all regions there is an improvement in performance for this dimension. Linkages to other systems also represent an improvement.	
ii)	C	B	The full implementation of the TIN project (see above i.) has caused an improvement in the application of the penalty system. Therefore an improvement in performance for this dimension.	
iii)	C	B	Performance of audit activities has improved in 2010 with respect to 2007.	

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) The Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)
Reliable data on tax arrears and on debt collection ratio is not available for EFY2000. However tax arrears for the latter have definitely been above

[65] This is also the opinion expressed by representatives of the private sector (Chamber of Commerce)

2% of total annual tax collection[66]. At the end of EFY 2001, total tax arrears amounted to approximately ETB 1.6 billion. This is equivalent to 6.938% of total annual tax collection[67]. Debt collection ratio for 2001 is not available.

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

Amounts due to ERCA for taxes and duties have to be paid by certified check to the different (16) branches. Each branch has an account at the National Bank of Ethiopia (NBE) where checks received from taxpayers are deposited (transferred) daily. The branch accounts are controlled by Treasury.

(iii) Frequency with which the Treasury completely reconciles accounts reflecting tax valuations, payments, records of late returns and income

Reconciliation of tax assessments, collections and transfers to the NBE accounts is carried out on a daily basis. Reconciliation of tax assessments, collections and arrears takes place monthly within the two weeks following the end of period[68].

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-15	**NS**	**NS**	**The indicator was not scored in 2007 and was not scored in 2010 either. Comparison is not possible. However it is believed that no change in performance has occurred between 2007 and 2010.**	
i)	NS	NS	A comparison in performance between 2007 and 2010 is not possible.	
ii)	A	A	In 2010 performance for this dimension was as good as in 2007.	
iii)	A	A	In 2010 performance for this dimension was as good as in 2007.	

Fiscal reforms

For EFY 2002 (2009/10), the Government has opted to eliminate the temporary exemption from VAT for food and food-related items introduced last year and is intensifying its efforts to improve revenue collections. With IMF technical assistance (Fiscal Affairs department) the Government has been reviewing both

[66] Source: Ethiopian Revenue and Customs Authority (ERCA). Tax arrears cannot be formally recorded in financial statements as, under the modified basis for cash accounting, revenues are only recognized when collected. Nevertheless, CRA branch offices have/are developing their own ledgers for recording tax arrears, though this is more difficult to do in regions where IT systems are not yet in place.

[67] *Idem* and own calculations based on annual tax and customs duties collection of about 23.5 billion of ETB

[68] *Idem* ERCA

tax administration processes and tax policies and intends to finalize a comprehensive tax reform strategy, to be finalized in 2010. The development of a tax reform strategy with a time-bound action plan is expected to be finalized in 2010.

PI-16 Availability of funds (for expenditure)[69]

Cash flow management (and forecast) for expenditures at the Federal level was introduced in 2004/05 with technical assistance from the IMF. This reform has evolved gradually and positively over the last 3 years. As far as coverage of this indicator is concerned, the last completed EFY 2001 (2008/09) is taken into consideration in conformity with the PEFA methodology.

i) Degree to which cash-flow forecasts and monitoring are carried out

The cash flow system was not fully established during EFY 2001 (2008/09), the year under evaluation. Notwithstanding all BI (about 170) have been submitting to the Treasury Department at the very beginning of the EFY yearly cash flow plans broken down in quarters for expenditures only (not revenues). These plans were based on the approved budgets and were rolled out on a quarterly basis (re-estimation of future cash flow occurred quarterly). In addition each BI had a monthly and quarterly disbursement ceiling based on cash flow forecast set within the IBEX system.

Basically, cash flow planning activities during last EFY2001 (2008/09) occurred quarterly. Disbursement ceilings were established monthly and quarterly on the basis of quarterly cash flow forecast.

ii) Reliability and time horizon of the information on maximum limits and payment commitments provided to the MDOs during the year

Federal Budget Institutions were provided reliable information on their cash flow availability quarterly in advance.

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

In-year budget adjustments in EFY2001 (2008/09) were not frequent and were not significant. They amounted to about 88.7 million ETB and were carried out in a transparent manner[70]. In fact the Federal Financial Administration Proclamation (both the previous 1996 law and the new 2009 law), along with the Financial Regulations under the previous law, and the annual Budget Proclamation laws provide for a good degree of transparency in making adjustments.

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[69] Data and information for PI-16 were provided by the Treasury Department of MOFED

[70] Source: Budget department, MOFED

Reforms

Starting EFY2002 (2009/10), a great majority of BI (about 130 out of 170 or 73.5%) have been submitting yearly, quarterly and monthly rolling cash flow plans to the Treasury Department at the beginning of the EFY. Often the submission is made with delays and not adhering to deadlines set for submission of 3 month cash flow plans. These plans were innovative for Ethiopia in the sense that they included revenues (in addition to expenditures) for the first time.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-16	**D+**	**B**	**There is change in performance due to the overall improvement in cash flow forecast activities in the last three years.**	
i)	C	B	The change is due to the fact that for the period under review (EFY2001-2008/09) disbursements are not only based on approved budget allocations but also on disbursement ceilings (based on cash flow forecast)	
ii)	D	B	Due to the improvement in above i) BI have a greater horizon for planning and committing expenditures	
iii)	B	B	In-year adjustments have not been a systemic problem during the period 2007-2010. There was no change in performance between 2007 and 2010	

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 32.8% of GDP in EFY2001 (2008/09) of which external debt accounted for 18% of GDP[71].

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

The existing legislation (at the time of the PEFA) evaluation) emphasizes that MOFED has the responsibility to record the public debt[72].

Foreign debt data are managed through the latest version of the UNCTAD DEMFAS System (introduced in EFY1999, 2006/07) by the Department of Credit Administration of MOFED and are updated on a regular basis. They

[71] IMF Country Report No. 09/296, September 2009, page 19, Table 1

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

are complete and of very good quality (they include foreign guaranteed debt of PE)[73]. Data on foreign debt are reconciled formally with creditors once a year[74]. In addition the Office of the Auditor General (OFAG) carries out audit of debt data as well as audit of the DEMFAS System on a yearly basis as part of the general MOFED audit.

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 is managed through an internal window of DEMFAS. Data on domestic debt is of good quality and is reconciled with the NBE on a quarterly basis. This data does not include the domestic debt of PE[75].

The Department of Credit Administration issues a Statistical Bulletin on external debt twice a year (in English) [76]. In addition the same department issues yearly a debt portfolio analysis in English (for both external and internal debt) which covers the last 5 years and deals with issues such as debt service, stock and operations[77].

TABLE 15: OVERVIEW OF STATUS OF THE DEBT MANAGEMENT SYSTEM

PUBLIC DEBT DATA	STATUS
Quality *- Internal* *- External*	 *Very good* *Very good*
Coverage *- Internal* *- External*	 *Complete* *Complete*
Reconciliation *- Internal* *- External*	 *Quarterly* *Yearly*
Reporting *- Internal* *- external*	 *Yearly* *Twice a year & Yearly*

Sources: MOFED, Department of Credit Administration

73 Communication of the Credit Administration Department of MOFED of World Bank and IMF
74 *Idem*
75 Communication of the IMF
76 This Bulletin, the last one published, *Public Sector External Debt*, Statistical Bulletin No. 3 2004/05 – 2008/09, October 2009 is available on the web site of MOFED www.mofed.gov.et with a quarter delay
77 The Debt Portfolio Analysis is a detailed report on domestic and external debt published yearly. The analysis refers to the past 5 EFY. The last one published was the one (No. 9) covering the period EFY1996-EFY2000 (2003/04-2007/08)

ii) Degree of consolidation of the government's cash balance[78]

As of March 2010, there were 501 Treasury controlled Federal Government bank accounts at the Commercial Bank of Ethiopia (CBE)[79] and 340 Treasury controlled Federal Government bank accounts in ETB at the National Bank of Ethiopia (NBE)[80]. In addition Treasury also controlled 173 accounts in foreign currency at the National bank of Ethiopia. All government cash balances are calculated and consolidated weekly.

iii) Systems for contracting loans and granting guarantees

According to the most recent legislation the Council of People's Representatives of the Federal Republic of Ethiopia has to authorize (any) borrowing of the Federal Government[81]. On the other hand however, the *Financial Regulation 17/1997* of July 1, 1997 entrust the Minister of Finance and Economic Development with the responsibility of preparation of government's semi-annual borrowing plan and its submission to the Council of Ministers for approval (Art. 50 & 51). The Government has to obtain approval of Parliament for its annual borrowing plan which sets limits for total debt. Guarantees should be in compliance with regulations issued by the Council of Ministers[82]. The Minister of Finance authorizes the issuance of guarantees based on economic considerations[83]. Overall there is no legal obligation for the Minister to submit an annual statement of guarantees and payments out of the consolidated fund.

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[78] The data and information used for the evaluation of this dimension have been provided by the Department of Treasury at MOFED.

[79] The nomination of CBE to manage transactional banking services of the government relieving in part the National Bank of Ethiopia (NBE) of this responsibility is a significant decision taken recently by MOFED. An agreement has been entered into by MOFED, CBE and NBE outlining the responsibilities of each party. The agreement also established remuneration to be received by the CBE for its banking services both for expenditures and revenues accounts (Source: Department of Treasury at MOFED).

[80] It should be noted that bank accounts of the extra budgetary funds analyzed under PI-7 are included in the 340 accounts at the NBE and controlled by Treasury. Funds expenditures are not accounted for in the Federal budget though

[81] *Federal Government of Ethiopia Financial Administration Proclamation* No. 648/2009, Part VIII, Art.40-45

[82] *Federal Government of Ethiopia Financial Administration Proclamation* No. 648/2009, Part VIII, Art.40-45

[83] *Council of Ministers 'Financial Regulations,* No.17/1997, Art.52; PE do not legally need a government guarantee to contract debt. In practice they 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 or services). This was the case for the Ethiopian Telecommunication Corporation and the Ethiopian Power and Electric Corporation (Communication of the Credit Administration Department).

Indicator	Score 2007	Score 2010	Performance change
PI-17	**B**	**B↑**	**There is no improvement in the overall performance of this indicator (the score). Debt reporting has improved.**
i)	C	C↑	The score is the same. However in 2010 debt management has improved due to slightly better quality of data and better reporting.
ii)	A	B	Scoring B does not mean that performance for this dimension has deteriorated between 2007 & 2010. In fact the scoring for 2007 should have been B because calculation & consolidation of cash balances occurred weekly and extra budgetary funds remain outside the arrangement.
iii)	B	B	There is no improvement in performance for this dimension.

Reforms

In addition to the legal framework under *iii)* the government has committed itself (to the IMF and in the context of the on-going program with this institution) to maintaining effective oversight over the evolution of public sector external debt, including that incurred by public enterprises. In addition to the conventional debt sustainability analysis (PI-12 ii), the Government will continue to keep debt levels under close review and will make every effort to ensure that new borrowings are contracted at concessional terms and that large foreign-financed projects are subject to rigorous economic appraisal before being approved.

PI-18 Payroll control Since EFY 1997 (2004/05), payroll at the Federal level is no longer centralized at the Treasury Department of MOFED and is the responsibility of each BI. The Finance and Property Management Department (Finance and Procurement Support Process) of each BI has the responsibility of payroll and uses a Microsoft Access based payroll software (for the BI only). Each BI also holds a personnel database for the BI (in the respective Administration Department/AD). As a result of entrusting CBE with the responsibility of banking services for public bodies (refer to PI-17 ii), Treasury has recently issued instructions stipulating that salary payments of employees (of public bodies) would directly be credited into their bank accounts held at CBE[84].

[84] This measure will be carried out in two phases: The first phase already started and during this phase 22 public bodies are covered including MOFED. Employees received an ATM card from CBE for withdrawing funds. A second phase is scheduled to cover the remaining public bodies of the Federal Government. It should be completed at the end of EFY 2002 (7July 2010). As of September 2010, 40 BI were covered by this measure.

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

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 then the FD and changes in the payroll database are updated monthly on the basis of documentation provided by the former[85].

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

With the decentralized system of payroll and personnel database, required changes are almost immediate with monthly update. There is no evidence of retroactive adjustment[86]. In fact any change (excluding changes due to death) has to be notified to the Administrative department by other departments three months in advance. In the case of death, existing regulations require payment to continue for 3 months following the death and even in this case no retroactive adjustment is necessary.

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

Changes in the personnel data base located in the Administrative Department of the BI can only occur if documented by an official request of another department. Authorization for changes in the payroll data base at the Finance and Property Management Department is clear and can only be carried out by the accountant. Changes are recorded and can be referred to[87].

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

Payroll audit is carried out on a quarterly basis as part of the internal audit activities of the Administrative Department and Finance and Property Management Department of the BI. The Office of the Auditor General (OFAG) carries out its audit every year for some BI and every other year for others. In addition the Inspection Department makes occasional controls of both the Administrative Department and of the Finance and Property Management Department of each BI[88]. These audits can be considered as comprehensive at the level of each BI and are aimed at identifying management and control weaknesses as well as ghost workers.

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[85] Administrative Department, Finance Department, MOFED
[86] *Idem*
[87] *Idem*
[88] *Idem* & OFAG

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-18	**B+**	**B+**	**For this indicator no change in performance has occurred between 2007 and 2010**	
i)	B	B	For this dimension no change in performance has occurred between 2007 and 2010	
ii)	A	A	"	
iii)	B	B	"	
iv)	B	B	"	

PI-19 Procurement For the evaluation of this indicator the last two EFY2000 (2007/08) and EFY 2001(2008/09) have been taken into consideration. For this period the corresponding legal framework was referred to[89]. In conformity with the existing legal framework A Federal Public Procurement Agency (FPPA) was in operation during the period under evaluation[90].

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

Technically speaking all (or most of/the greatest majority) contracts above the threshold at the Federal level appear to be awarded on the basis of open competition[91]. Data on the number of contracts above the threshold using competitive methods (that are relevant for the evaluation of this dimension from a methodological point of view) is not available because it is not centralized. It is collected separately by each of the 130 procurement units operating with the Federal Government. However data on the value of contracts above the threshold using competitive methods is available (is is not relevant for the evaluation of this dimension from a methodological point of view). This data shows clearly that for the six (6) procurement methods contemplated by the legislative framework almost 90% of the total value of contracts procured in EFY1998 (2005/06) was awarded on the basis of open competition. In EFY1999 (2006/07) and EFY2000 (2007/08) the total value of contracts awarded on the basis of open competition was 78.43% and 85.89% respectively:

[89] *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
[90] Proclamation No. 430/2005, Chapter II
[91] FPPA (now the Public Procurement and Property Administration Agency/PPA)

TABLE 16: PROCUREMENT METHODS AND DISTRIBUTION OF VALUE FOR EACH METHOD
(In Million of ETB and in %)

	PURCHASING METHODS	EFY1998 (2005/06)		EFY1999 (2006/07)		EFY2000 (2007/08)	
A	**Open tender**	**5,275.00**	**87.76%**	**7,619.81**	**78.43%**	**14,709.08**	**85.89%**
B	Restricted Tender	181.24	3.02%	70.14	0.72%	469.98	2.74%
C	Two stage tendering	-	0.00%	0.43	0.00%	0.53	0.00%
D	Request for Proposal	80.15	1.33%	249.83	2.57%	386.94	2.26%
E	Single sourcing	423.15	7.04%	1,672.89	17.22%	1,558.61	9.10%
F	Request for quotation	51.35	0.85%	102.87	1.06%	0.82	0.00%
	TOTAL	**6,010.89**	**100%**	**9,715.97**	**100%**	**17,125.97**	**100%**

Source: Report on Public procurement, PPA, August 2009

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

The reference procurement legislation for the period covered by this evaluation contemplates the use of procedures other than open bidding[92]. These are the methods of restricted tender, the two stage tendering, request for proposal, the single sourcing and the request for quotation. In practice the single sourcing is the only method used besides the open tender (and the request for proposal occasionally). The conditions for its use as well as for other non competitive methods are spelled out in detail in the legislation. These conditions require clear justification in accordance with legal and regulatory requirements[93]. The other less competitive methods when used are justified in accordance with clear regulatory requirements.

(iii) Existence and functioning of a procurement complaints mechanism

The legislation contemplates clear and detailed complaint mechanisms[94]. 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. Data on resolution of complaints is now accessible to public scrutiny.

Reform

92 Proclamation No. 430/2005, Art.25.2 and Art.26-27-28-29-30; Federal Public Procurement Directive (2005), Art.6.2

93 *Idem* and Communication of the FPPA

94 Proclamation No. 430/2005, Art.51-53; Federal Public Procurement Directive (2005), Art.33-34

A new Proclamation on Procurement and Property Administration was adopted on September 9th 2009[95]. New procurement directives have been adopted in June 2010. The difference with the previous procurement proclamation is that now property management was merged with procurement administration. There are other differences as well. These concern the establishment of duties and responsibilities such as the creation of the Procurement property and Administration Unit and the Procurement Endorsing Committee (Art. 8-10). The new legislation refers also to the importance of the Procurement Plan (Art. 22), Electronic Procurement (Art. 31), Rejections of Bids, Proposals and Quotations (Art. 30), the Rules of Ethics (Art.32), Public private partnership (Art.34), Price Adjustment (Art. 37/k), Framework Contract (Art.61) and the Establishment of the Board (Art.70).

With the new proclamation, entities of the Federal Government have now the obligation to prepare a yearly procurement plan that has to be consolidated by the newly created Public Procurement and property Agency (PPA). The new proclamation also establishes a board (an independent entity) to review and to decide on complaints regarding public procurement as well as property disposal proceedings. The board shall be drawn from persons representing the private sector, the Government and public enterprises. PPA has now its own web site www.ppa.mofed.gov.et which is being further developed.

It should also be mentioned that a thorough evaluation of the public procurement system at the Federal level is being carried out (March-April 2010) using the OECD-DAC methodology.

[95] *The Ethiopian Federal Government Procurement and Property Administration Proclamation*, No. 649/2009, September 9th, 2009 in: Federal Negarit Gazeta No.60

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-19	**C+**	**C+**	**As of March 2010 the PEFA evaluation did not notice any change in performance with regard to the previous evaluation of 2007.**	**A new legal framework for procurement and property administration has been adopted in September 2009. If properly implemented changes related to the new legislation are likely to have a positive impact on performance in the next years.**
i)	D	D	Due to the lack of data on the number of contracts above the official threshold procured through open competitive methods, it is not possible to measure change in performance. The score assigned is D in 2007 and also D in 2010.	The available data indicate however that 80% and more of the total value of contracts procured between EFY1998 (2005/06) and EFY2000 (2007/08) adopted the open competition methods.
ii)	B	B	No change in performance between 2007 and 2010.	
iii)	B	B	No change in performance between 2007 and 2010.	

PI-20 Internal controls for non-salary expenditure

In conformity with the PEFA methodology, this evaluation refers to the subject matter of internal controls for non salary expenditures as at time of assessment (EFY2002 -2009/10).

i) Effectiveness of expenditure commitment controls

Expenditure commitments for all types of expenditures to be taken after goods and services have been received to the satisfaction of the BI and after an official invoice has been forwarded by the supplier are controlled by the Finance Department (FD). This is merely a control to limit the amount committed to the approved budget allocation. In addition a control to limit the amount of the commitment to actual cash availability is carried out through the IBEX system. The latter automatically blocks commitment(s) above the set disbursement ceiling for each BI.

The existing expenditure commitment controls that are in place are comprehensive and effective. In fact they strictly limit commitments to approved budget allocations and to actual cash availability.

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

Control rules and procedures regarding processing and recording transactions have been in application for many years and are generally very well understood by the interested parties[96]. These include routine controls carried out by the Administrative Department (AD) of each BI prior to the signing of a contract for goods and/or services, casual labour wages and staff allowances and also *ex post* controls carried out by the Treasury and Accounts Departments of MOFED[97]. The existing set of control rules and procedures are relevant and comprehensive. However they are sometimes excessive due to duplication of the same type of control (e.g. controls on the availability of approved funds in the budget by both the Administrative and Finance Department of the BI);

iii) Degree of compliance with regulations on the processing and registration of transactions[98]

The monitoring system in place through the Internal Audit Unit in each Federal Ministry and at the Inspection Department (ID) of MOFED makes it difficult not to comply with rules for processing and recording transactions. The same system also prevents the occurrence of occasional simplified and non justified procedures.

The Internal Audit Unit reviews routinely internal controls to improve compliance and is directly concerned with the detection and prevention of fraud. In addition the ID has an oversight function on BI (and all public bodies) as far as compliance to these rules is concerned. Every quarter each BI has the obligation of reporting on the previous (quarterly) period on compliance non compliance and breaches of key financial rules. Based on these reports, in case of significant findings the Council of Ministers is informed through a report elaborated by the ID (at least every six months).

In general, there has been little evidence of non-compliance with rules for processing and recording transactions and misuse of simplified and emergency procedures is limited due to the monitoring system in place within the BI and at the ID.

[96] The main legal texts that cover these controls are the Proclamation No. 57/1996 and the Council of Ministers Regulations No. 17/1997

[97] Treasury Department & Accounts Department (MOFED)

[98] Sources: Central Accounts Department, Treasury Department, Budget Department and Inspection Department

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-20	**C+**	**B+**	**There is a clear change in performance between 2007 and 2010 due essentially to the control on disbursement ceilings carried out by IBEX**	
i)	C	A	The change is mainly due to the control carried out by IBEX on disbursement ceilings (and availability of cash flow) introduced in EFY1999 (2007/08) and to the introduction of the improved cash flow system (expenditures and revenue) from the beginning of EFY2002 (2009/10) on.	
ii)	C	B	Although the scoring has improved there is no change in performance because fundamentally the existing set of controls today (EFY2002 2009/10) is the same as it was during the previous evaluation. During the 2007 this dimension was simply underscored.	
iii)	B	B↑	There is improvement in performance today compared to the previous evaluation due to a better trained staff at the ID as well as at level of the Internal Audit Unit of each ministry. This improvement is however not enough to be reflected in the scoring.	

PI-21 Effectiveness of Internal audit

Internal audit activities at the federal level are carried out by the Internal Audit Unit of each Federal ministry or BI. For these activities an internal systems-based audit manual (rolled out in EFY 1996) is used[99]. It has been provided to all internal audit units in federal government and also to the regions. This has been supplemented with a training manual (EFY 1998). International Standards for the Professional Practice in Internal Audit (ISPPIA), issued by the Institute of Internal Auditors are reflected throughout.

The Inspection Department at MOFED has a regulatory role and the role to conduct special investigation when required. It also has the role of building the capacity of Internal Audit Unit and the one of monitoring & evaluating the works of internal audits.

(i) Scope and quality of internal audit function

Audit activities of the Inspectorate Department of MOFED and of other audit units in federal government are based on a rolling program of inspections and

[99] MOFED, *Procedural Manual for Internal Audit Standards and Code of Ethics for Internal Auditors and Internal Audits*, EFY1996 (2003/04)

on a yearly audit plan. The audit activities are operational for the totality of BI within federal government and are based on ISPPIA. Systemic audit has started in EFY 1998 (2005/06) and has gradually increased to represent at least 50% of staff time.

(ii) Frequency and distribution of reports

A report is always drafted after an internal audit. It is always sent to the head of the entity being audited and MOFED's Internal Audit and Inspectorate Department. However, audit reports are not yet distributed to the Office of the Federal Auditor General (OFAG). Sending the report to OFAG is not a legal requirement. In addition OFAG can obtain a copy on request.

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

Findings of internal audit reports have to be incorporated in the entity's Action Plan. In general specific actions resulting from the audit findings are carried out by a growing number of managers because implementation of these actions is subject to scrutiny by a public monitoring team from the ID at MOFED. In addition in the case a serious problem has been identified by the audit, the ID sends a specialized team to assist in solving the problem.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-21	**C+**	**B+**	**The evaluation shows that overall performance of internal audit has improved between 2007 and 2010**	--
i)	A	A	There is no change in score but performance has undoubtedly improved during the period 2007-2010.	The score of the dimension was likely overvalued in 2007 due to the fact that systemic audit which started in EFY 1998 (2005/06) may not have represented 50% of staff time. This is what came out from discussions with the ID.
ii)	C	A	Audit reports are still not sent to OFAG but in 2010 it was decided to score this dimension A because it is not a legal obligation to do so.	--
iii)	B	B↑	There is an improvement in the extent of management response to internal audit findings.	In 2007 there was already a prompt and comprehensive response by many managers to internal audit findings. This number of managers has likely increased between 2007 and 2010. This is what came out from discussions with the ID.

3.5 Accounting, recording and reporting

PI-22 Reconciliation of Accounts

(i) Regularity of bank account reconciliations

Information on all government bank accounts from the CBE and NBE are available at MOFED daily. Bank reconciliation (at the aggregate and more detailed levels) for all treasury managed bank accounts at CBE and NBE takes place daily. The other bank accounts that are not part of the Treasury are reconciled irregularly. The reconciliation items include late recording by budget institutions, transfers made on the closing date and uncleared bank deposits[100];

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

Reconciliation and clearance of suspense accounts and advances[101] take place monthly within two weeks following end of period[102].

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-22	**B+**	**B+**	**No change in performance in 2010 with regards to 2007**	
i)	B	B	"	
ii)	A	A	"	

PI-23 Resources received by delivery units

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

[The 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]

[100] Communication of the Central Accounts Department and of Treasury
[101] Suspense accounts and advances are classified in the Chart of Accounts under code 4201 for suspense accounts and code items 4203-4211 for advances.
[102] *Idem*

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. This indicator covers in-year budget execution reporting of the Federal Government only.

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

Reporting and reporting possibilities on budget execution at the Federal level are extremely comprehensive and detailed with expenditure captured in all its phases. Several types of in-year execution reports are available from the IBEX system[103]. For example expenditures by Budgetary Institution' report except for accounts closing purposes are available. In this case, the report is presented for all sources of finance and items of expenditure for a single bank account for the selected reporting unit. Same as the monthly reports 'Monthly Budget vs. Expenditure by Account Code' report is also available except for accounts closing purposes (this displays the report for all sources of finance and items of expenditure for a single bank account for the selected reporting unit).

In addition there are other reports readily available from the IBEX system: A report listing the YTD expenditure amounts for each public body grouped by expenditure category. Another one listing the YTD expenditure amounts for each budgetary institution grouped by budgetary institution and item of expenditure. One report is also listing the YTD expenditure amounts for each public body grouped by expenditure category.

A set of required aggregate reports are also generated from IBEX that show quarterly accounting data. The first report provides summarized budgetary and accounting data for expenditures sorted by the expenditure budgetary institution on a quarterly basis with distinct values for each quarter. Another one provides summarized budgetary and accounting data for expenditures sorted by the item of expenditure on a quarterly basis with each quarters' values distinct. The last report provides summarized trial balance on a quarterly basis with each quarters' values distinct.

[103] The Integrated Budget and Expenditure System (IBEX) is a financial information system that has been designed and developed to automate and support public finance management in Ethiopia. It includes different modules including a Budget, Accounts, Budget Adjustment, Budget Control, Accounts Consolidation and Administration Module.

(ii) Timeliness of report presentation

Refer to (i). Reports are readily or almost readily available[104].

(iii) Quality of information

Data on in-year execution reports appear to be accurate. Few material concerns have been raised to date about the quality of these data. These concerns refer to the data on foreign financing of projects (loans and grants)[105].

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-24	**C+**	**B+**	**The change in performance is essentially due to the full use of the IBEX system for in-year budget execution reporting.**	
i)	C	A	With the IBEX system there is a significant change in performance as far as in-year budget execution reporting is concerned.	
ii)	A	A	No change in performance. Reports are readily or almost readily available.	
iii)	C	B	Change in performance is due to the use of the IBEX system. Up to now few material concerns has been raised for the accuracy of the data in the system (loans and grants).	

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 the legislation[106].

(i) Comprehensiveness of financial statements

A consolidated Federal government statement is prepared annually by the Central Accounts Department of MOFED. It includes information on revenues and expenditures, financial assets and liabilities[107].

[104] *Idem*
[105] Sources: Treasury and Account Departments
[106] "*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).
[107] *Idem* and Communication of the Budget Preparation and Administration Department; The Federal Democratic Republic of Ethiopia, Central Accounts Department: Budgetary Revenue and Expenditure (Audited): for EFY 1999 (2006/07) and for EFY 2000 (2007/08).

(ii) Timeliness in the presentation of financial statements

The statement has to be legally submitted for external audit within six months of the end of the EFY[108] and the Office of the Federal Auditor General (OFAG) has four months to forward it to the House of People's Representatives[109]. The last financial statements finalized and sent to OFAG were the statements for EFY2001 (2008/09). They were submitted to OFAG on February 27, 2009 less than 8 months after the end of the EFY. The previous statements (for EFY1999-2006/07 and EFY2000-2007/08) were submitted to OFAG on April 15, 2009 and on October 2, 2009, about nine months and fifteen months respectively after the end of the EFY:

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

FINANCIAL STATEMENTS	EFY1999 (2006/07)	EFY2000 (2007/08)	EFY2001 (2008/09)
Submission to OFAG	April 15, 2008	October 2, 2009	February 27, 2010
Timeliness of submission (Within the end of the EFY)	9 months	15 months	Less than 8 months

Sources: Accounts Department, MOFED and OFAG

(iii) Accounting standards used

Financial statements for the Federal Government are presented in consistent format over time. For the preparation of statements a modified cash basis of accounting that recognizes the following non-cash transactions is used.

Revenue is recognized when:

- Aid in kind is received (income tax and employee fines);
- Payroll is processed;
- Salary advance is made to an employee (interest on salary advances);
- Withholding tax is deducted from the amount due to a supplier.

Expenditure is recognized when:

- Payroll is processed (salary and pension expenses);
- Aid in kind is received;

[108] MOFED *Directive* No. 20, 2005,
[109] *Idem*

- Goods are received or services are rendered;
- At the end of the year, a grace period payable is accounted for.

Intergovernmental transfers are recognized without actual cash movement.

Amounts borrowed using treasury bills and direct advances from the NBE are recognized as current liabilities.

The accounting standards used are consistent with Generally Accepted Accounting Practices (GAAP). International Public Sector Accounting Standards (IPSAS) are not yet used.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-25	**C+**	**C+**	**Overall there is no change in performance for this indicator.**	
i)	C	B	There is no change in performance. The 2007 evaluation underscored this dimension	
ii)	B	B	With regard to 2007, there was no change in performance.	
iii)	C	C	No change in performance between 2007 and 2010.	

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[110]. The Office of the Federal Auditor General (OFAG) has been established by law[111]. The OFAG is a member of the International Organization of Supreme Audit Institutions (INTOSAI).

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

Entities of the Federal Government audited annually by OFAG represent about 51%of total expenditures. Income, expenditures, assets and liabilities are covered during these audits. Financial audits focusing on systemic problems as well as performance audits are performed and generally adhere to INTOSAI & IFAC/IAASB standards[112]:

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

Elements covered	% of expenditure audited	Audits carried out	Audit standards applied
- Income - Expenditure - Assets - Liabilities (debt)	- 51.0% -	- Financial audits focusing on systemic problems (of systems) (Treasury, staff, acquisitions, budget, accounting) - Performance audits	- INTOSAI & IFAC/IAASB

Source: OFAG

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

OFAG's audit of the final accounts is dependent upon MOFED transmitting the appropriate documentation. There is currently less than one-year lag in auditing the Federal Government accounts: For EFY 2001 (2008/09), the last statements received by OFAG it took less than 4 months to audit the accounts and to submit them to People's Representatives. For the previous

[110] Art. 101-2
[111] Proclamation No. 68/1997
[112] International Federation of Accountants and International Auditing and Assurance Standards Board (Source: OFAG)

statements for EFY1999 (2006/07) and for EFY2000 (2007/08) the auditing exercise by OFAG took about 5 ½ months and 4 months respectively:

TABLE 19: AUDITING OF FINANCIAL STATEMENTS BY OFAG

FINANCIAL STATEMENTS	EFY1999 (2006/07)	EFY2000 (2007/08)	EFY2001 (2008/09)
Received by OFAG	April 15, 2008	October 2, 2009	February 27, 2010
Audits of financial statements completed by OFAG and submitted to legislature (Duration of audits)	September 30, 2008 (About 5 ½ months)	January 25, 2010 (Less than 4 months)	June 24, 2010 (Less than 4 months)

Sources: Accounts Department, MOFED and OFAG

Audit of entities of Federal Government is carried out separately by OFAG and the audit reports are submitted to the legislature as follow: a) directly to the legislature only if the opinion is adverse; b) Together with the consolidated Auditor General Report annually if there are no adverse opinions.

(iii) Evidence of the audit's recommendations being acted upon

The OFAG will give an opinion on the accounts, accompanied by a report which highlights material or noteworthy issues and which makes recommendations related to improving the standard of public financial management in budgetary institutions. For performance audit reports there is however no clear evidence of follow up in the sense that the entity audited addresses the recommendations and actions to be taken as a response (this is done partially though). For financial audit reports OFAG does the follow up during subsequent audit. In addition there is no requirement for a formal management letter on the part of the entity audited in response to the audit findings. Basically there is no mechanism for follow up by OFAG and follow up occurs partially by OFAG during the subsequent audit of the entity (usually the following year for most important entities).

Reform

New draft legislation for OFAG has been elaborated. At the time of the PEFA evaluation (March 2010), a draft Proclamation for external audit was being reviewed by Parliament. The PEFA team was unable to review this draft but OFAG emphasized that the new legislation to come will reflect international good practices in external audit. It will also focus on independence and human resources issues in order to allow the institution to broaden its scope.

In the context of audit reforms it should also be pointed out that a US$ 10 million support project is under implementation under PBS II. Its objective is to address capacity constraints at the Office of the Federal Auditor General (OFAG) as well as to regional Auditor General's Offices through the financing of training, procurement of vehicles, IT equipment, furniture and fixtures.

It should also be noted that performance of the external audit function will greatly benefit from the new IBEX version 2 (when it is introduced) as it will include some core audit functionality.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-26	**C+**	**C+↑**	**Overall performance of external audit has improved due to an improvement in the time needed to audit financial statements. This improvement is not yet visible in the score of the indicator.**	
i)	C	C	Overall there was no deterioration in performance.	
ii)	B	A	There is a clear improvement in the performance for this dimension due essentially to a reduction in the number of months needed by OFAG to audit the financial statements.	
iii)	C	C	There is no change in performance for this dimension. Follow up on audit recommendations appears to be constrained by lack of capacity.	

PI-27 Legislative approval of the budget

i) Scope of examination by the Legislature

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 review of the recommended budget by the *Budget and Finance Standing Committee*[113] includes a review for consistency with the PASDEP. It also includes a review for recurrent and capital expenditures, a review of subsidies to regional

[113] The *Constitution* of 1994 (art. 55-19) provides the Federal Parliament with the authority to establish standing and ad-hoc committees to carry out its various reviews. This Committee is now chaired by a member of the ruling party.

governments and administrative councils, and a review of estimate of resources available to finance the budget[114]. In practice though, the review is extremely limited. In fact there is no rigorous examination (and no detailed review) of the draft recommended budget and of the elements mentioned. In addition the legislative debate is short and formal.

ii) Degree to which legislative procedures are recognised and respected

The *Public Accounts Standing Committee* has a manual to carry out the parliamentary review as indicated in above i). A manual (adopted in 2007) with basic procedures available for the review but it is not used and referred to.

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

The recommended budget must be submitted to the House of Peoples' Representatives no later than June 7[115]. The Council of Peoples' Representatives is required to vote on the annual appropriations for the approved budget no later than July 7[116]. The legislature has about one month to review the recommended budget.

iv) Rules applicable to budgetary amendments during the year which do not require the approval of the Legislature

Supplementary budgets (or in-year budget amendment) can be authorized by the Council of Peoples' Representatives on the recommendation of the Council of Ministers[117]. Budget amendments are clearly regulated[118]. Although they are generally expected, they allow significant reallocations.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-27	**D+**	**D+↑**	**No performance change in 2010 with respect to 2007 but small progress due to the introduction and use of manual for review of draft budget law.**	
i)	C	D	There is no change in performance because the scoring for 2007 should have been D.	
ii)	D	D↑	No performance change in 2010 with regard to 2007. However the introduction of the Manual is a positive step and shows some progress.	
iii)	C	C	No performance change. B assigned due to B for	

[114] Revised Budget Manual, Final Draft, January 2007, page 46
[115] Revised Budget Manual, Final Draft, January 2007, page 45.
[116] *Federal Government of Ethiopia Financial Administration Proclamation* No. 57/1996,Part IV, Art.16
[117] *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
[118] *Idem*

			i), ii) and iv). Please refer to PEFA Manual (blue book, page 48).	
iv)	B	B	No performance change.	

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

(i) Punctuality in examination of the audit reports by the Legislature (reports received within the past three years).

In the Federal Democratic Republic of Ethiopia examination of the audit reports is carried out by the Public Accounts Committee (PAC)[119]. The PAC ensures accountability. The PAC carries out its review within two months from receipts of the reports[120].

(ii) Scope of the hearings carried out by the Legislature into the main findings

In-depth hearings are conducted by the legislature and cover both performance and financial audit reports. They are not systematic due to limited capacity covering partially the audited entities[121].

(iii) Measures recommended by the Legislature and their implementation by the Executive

For performance audit reports the PAC always conducts hearing upon submission of the report and requires audited entities to rectify problems that have been identified. Recommendations are made. Because there is no follow up by the PAC it is not known whether they are acted upon by the executive. For financial audit reports the situation is a bit different in the sense that recommendations are made by the PAC but these are based on the recommendations included in the reports (formulated by OFAG). OFAG makes sure in this case that they are acted upon when the next audit is carried out.

Indicator	Score 2007	Score 2010	Performance change	Other factors
PI-28	**C+**	**C+**	**No performance change**	
i)	A	A	"	
ii)	C	C	"	
iii)	C	C	"	

[119] Communication of OFAG
[120] *Idem*
[121] *Idem*

3.7 Donor Practices

As a % of total expenditure the FDRE receives a significant amount of external assistance most of which is in grant form. Grants are provided by both multilateral institutions and directly by foreign government (and both entities cover the support for the protection of basic services (PBS). Between EFY1999 (2006/07) and EFY2001 (2008/09), there were about 20 multilateral institutions[122] and about the same number of (bilateral) governments[123] that provided grants to the country. Loans were mainly provided by IDA/WB but also by the African Development Fund.

TABLE 20: TOTAL EXTERNAL ASSISTANCE (GRANTS & LOANS) TO THE FDRE (EFY1999-EFY2001)
(In million of ETB & in % of total expenditures)

		EFY1999 (2006/07)	EFY2000 (2007/08)	EFY2001 (2008/09)
1	**EXTERNAL ASSISTANCE (1)**	**11,384.10**	**11,410.92**	**13,510.42**
	(Grants)			
	Of which: EU	*2,007.51*	*1,624.60*	*837.00*
	IDA/WB	*3,349.50*	*2,872.55*	*3,841.28*
	Global Fund (2)	*1,015.32*	*1,685.46*	*1,315.95*
	DFID	*1,890.10*	*1,743.35*	*2,021.01*
	ADF	*816.40*	*594.31*	*876.19*
2	**EXTERNAL LOANS**	**2,022.46**	**1,867.75**	**3,545.76**
	Of which: IDA/WB	*1,362.27*	*994.25*	*2,134.07*
	AFD	*281.58*	*533.58*	*511.00*
3	**TOTAL (=1+2)**	**13,406.56**	**13,278.67**	**17,056.18**
4	**TOTAL (As % of total Exp)**	**42.06%**	**32.09%**	**31.42%**

(1) Includes PBS & Debt Relief Assistance; (2) For 2001 the data are for GAVI

Sources: Accounts Department, MOFED, Actual for EFY 1999 and EFY2000. Budget for EFY2001

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[122] In addition to the main ones mentioned in the table, the African Development Bank (AFD), UN institutions (UNICEF, UNDP, UNFPA, and WHO), the Global Alliance for Vaccine and Immunization (GAVI) were also present in Ethiopia

[123] Austria, Belgium, Canada (CIDA), China, Czech Republic, Finland, France, Germany (GTZ and KWF), Ireland, Italy, Sweden (SIDA), Switzerland (SECO), the Netherlands, UK (DFID), USA (USAID), Japan (JICA), etc.

D-1 Predictability of Direct Budget Support

General budget support was suspended in Ethiopia following political disturbances after the May 2005 elections. Development partners have now introduced a new and more accountable mechanism for channelling money through the Government of Ethiopia to protect and promote basic services for the poor. This programme is known as the Protection of Basic Services (PBS) and includes stringent measures to ensure transparency and accountability.

In addition to Sectoral Budget Support from the EU donors have disbursed funds into the treasury for at least four (multi-donor) programs:

a) The Protecting of Basic Services (PBS)

PBS is providing financial support through Government channels (treasury), requiring the Government to spend the money on basic social services and also to maintain its own financial commitments to these services. PBS consists of the following four main components: Sub-national Basic Services; Health MDG Performance Facility; Financial Transparency and Accountability; and Social Accountability. The objective of the Second Phase of PBS (PBSII) is to focuse on education, health, agriculture, water supply and sanitation, and rural roads delivered by sub national governments in Ethiopia, while continuing to deepen transparency and local accountability in service delivery.

The PBS represented almost 40% of the total aid (external assistance and external loans) programmed for Ethiopia in EF2001 (2008/09):

TABLE 21: PROTECTION OF BASIC SERVICES (EFY2001-2008/09)
(Donors and funds programmed in millions of ETB)

DONOR/AGENCY	AMOUNT
1. African Development Fund (ADF)	635.06
2. EU	752.38
3. International Development Association (IDA)	2,909.10
4. DFID (UK)	1,908.11
5. Ireland	180.34
6. Germany/KFW	154.64
7. Austria	41.05
8. Spain	150.28
TOTAL	**6,731.00**
TOTAL (As a % of total aid: external assistance & loans)	39.46%

Sources: EFY2001 Federal Government Budget Proclamation (598/208)

b) The Productive Safety Net Programme (PSNP)

The Productive Safety Net Program aim is to address the underlying causes of household food-insecurity. The Project's objective is to reduce the number of Ethiopians suffering from extreme hunger, malnutrition, and poverty and to the rehabilitation of the environment by strengthening soil and water conservation, making agriculture more productive and sustainable.

c) The Public Sector Capacity Building Programme (PSCAP)

The objective of the Public Sector Capacity Building Program (PSCAP) Support Project for Ethiopia is to improve the quality of public service delivery at the federal, regional, and local level; to empower citizens to participate more effectively in shaping their own development; and to promote good governance and accountability.

d) Democratic Institution Program (DIP)

The Democratic Institutions Program (DIP) is a five-year multi-donor program in support of the PASDEP's theme goal to develop "---*a fully operational,* *democratic, accountable and responsive constitutional federalism ensuring citizens' empowerment and participation.*"

The purpose of the DIP is to support the development of key organizations that together play a role in strengthening institutional frameworks of democratic governance in Ethiopia; namely, 1) Promoting human rights and good governance; 2) Enhancing the capacity of democratic institutions to be effective, sufficient, and responsive in promoting and protecting the rights of citizens; 3) Empowering citizens to be active and effective participants in the democratic process as well as respect for the rights of others. To achieve these objectives, the DIP has identified, but not limited to, the following key institutions as enabling partners: The National Electoral Board of Ethiopia, Ethiopian Human Rights Commission, Ethiopian Institution of Ombudsman, Ethics and Anti-Corruption Commission, House of Peoples' Representatives, Regional State Councils, the House of Federation and Regional Council of Nationalities.

(i) Annual deviation in effective budgetary support with respect to that planned by donor bodies at least six months before the government presents its budgetary proposals to the Legislature (or equivalent organ responsible for approving them) [124]

For the EU SPSP budget support, in 2 of the last three years (2007, 2008 and 2009), budget support outturn fell short of the forecast by more than 15%. For the other EU programs (PBS, PSCAP, Road Sector Support), only in one of the same last three years outturn fell short of the forecast by more than 15%. For DFID for programs such as PBS, PSCAP and Water and Sanitation outturn fell short of the forecast by more than 15% only in one of the last three years.

(ii) Timeliness of disbursements by donors during the year (compliance with aggregate quarterly estimates)

Mainly for the EU SPSP budget support data on forecast and disbursements are available on a quarterly basis for the last 3 calendar years (2007-2009). For the other programs (PBS, PSCAP, Road Sector, water and Sanitation) some data exists on a quarterly basis but overall the data available does not allow evaluation of this dimension.

Indicator	Score 2007	Score 2010	Performance change	Other factors
D-1	**C**	**NS**	**The indicator was not scored due to lack of data for ii)**	
i)	C	C	No change in performance	
ii)	C	N.S.	No data available to score this dimension	

[124] Due to different fiscal years (Ethiopia, EU, UK/CIDA, IDA) it is difficult to coherently allocate amounts for the different programs to one reference fiscal year (EFY). Therefore for this indicator the annual deviation of actual budget support from the forecast has been calculated separately for each donor and particularly for the main donors.

D-2 Financial Information provided by donors for budgeting a reporting on project and program aid[125]

i) Comprehensiveness and punctuality of donors' budgetary estimates in relation to project support

Basically all the donors/agencies that answered the PEFA questionnaire[126] provide estimates on their disbursements for projects early enough for the government to include these estimates in the budget. The estimates provided by the donors are not classified in conformity with the government's budget classification (see following table).

(i) Frequency and coverage of the presentation of reports by donors in relation to effective resource flows for project support

Most donors report quarterly on their disbursements for projects within one month of end-of-quarter. The information provided in these reports is not classified according to the government's budget classification (see following table).

Indicator	Score 2007	Score 2010	Performance change	Other factors
D-2	**C**	**C**	No change in performance	
i)	C	C	Basically the information on disbursements estimates provided to the government by donors does not use the government budget classification	
ii)	C	C	Information on actual disbursements in quarterly reports is not consistent with the government budget classification	

[125] There is a Development Assistance Group (DAG), which regroups bilateral and multilateral donor agencies operating in Ethiopia. The DAG has around thirty active members. The World Bank, with the United Nations Development Program (UNDP) and one bilateral donor, is one of the rotating co-chairs of the DAG, the main forum for donor coordination in Ethiopia. For more information please refer to www.dagethiopia.org)

[126] The following donors and agencies have responded to the PEFA questionnaire for D-2 (D-3 and D-1 when applicable): The EU, the African Development Bank (ADB), the Canadian International Development Agency (CIDA), the Department for International Development of the UK (DFID), the Japanese International Cooperation Agency (JICA) and the United States Agency for International Development (USAID).

TABLE 22: INFORMATION PROVIDED BY MAIN AGENCIES ON PROJECTS/PROGRAMS IN ETHIOPIA

	EU	DFID	CIDA	JICA	AFDB	USAID	WB
1. The agency provides complete budget estimates for disbursement of project aid	Yes	Yes	Yes	Yes	Yes	Yes	
2. These estimates for disbursements for projects that are provided are made at stages consistent with the government's budget calendar	Yes	Yes	Yes	Yes	Yes	Yes	
3. These estimates for disbursements for projects that are provided are made with a breakdown consistent with the government's budget classification	No	No	No	No	No	No	
4. The agency presents quarterly reports on disbursements within one month of end-of-quarter	No	Yes	Yes	Yes	Yes	Yes	
5. The quarterly reports presented have a classification consistent with the government's budget classification	N.A.	No	No	No	No	No	

Sources: The information in the above table has been provided by the agencies themselves

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

(i) Global proportion of aid funds to the central government that are administered on the basis of national procedures

In addition to the EU sectoral budget support, the PBS, the PSNP, the PSCAP and the DIP are programs that are managed through national procedures, mainly procurement but also payment/accounting, audit and reporting. The PBS program alone represents 39.46% of total aid for EFY 2001 (2008/09). The remaining programs represent about 30% for the same year. About 70% of the aid funds to Central Government for EFY2001 had to be managed through national procedures[127].

Indicator	Score 2007	Score 2010	Performance change	Other factors
D-3	**NS**	**C**	--	

[127] This percentage was calculated based on budget and aid data provided by MOFED and on aid data provided by the EU, DFID, CIDA and the AFDB. The WB did not provide any data for this indicator.

4. Government reform process

Section 4 covers mainly past and on-going reforms of the period 2007-2010. It focuses almost exclusively on reforms at the Federal level (excluding the SN levels)[128].

Description of Recent and Ongoing Reforms

A) BUDGET REFORM

From July 7, 2009 on (beginning of EFY2002) more than 200 additional budgetary institutions at federal (regional and city administration levels) have been able to use a new Budget Information System (BIS) module of the IBEX financial information system for the first time for the presentation of their respective budgets.

Regarding programme budgeting, for the last three years, piloting was implemented. In addition a manual and training module were prepared. Moreover training was provided.

BI have been testing the introduction of program budgeting (multi-year program budgeting) and for EFY2002 (2009/10) 58 Budget Institutions at the federal level presented shadow programs). From an institutional point of view a special unit within the EMCP reform coordination section (MOFED) was created in order to provide support to the introduction of program budgeting. The latter will require significant changes within the IBEX system[129].

B) FISCAL REFORMS

With the technical assistance of Fiscal Affairs department of the IMF the Government is elaborating a comprehensive tax reform strategy planned to be finalized to be finalized in 2010.

C) CASH FLOW FORECAST AND MONITORING, CASH BALANCES

The Treasury is in the final stage of collecting cash flow data for the last three years. The aim is to enhance understanding of present shortcomings in cash management in the public sector and improve cash flow planning. The exercise analyzes also the relationship between procurement plans and cash management. The objective of the study is for MOFED to elaborate a cash management manual which should contribute to increase efficiency.

[128] This section is also a complement to information provided for PBS, PSNP, PSCAP and DIP under 3.7

[129] The IBEX disbursement module has been upgraded, taking into account the above mentioned new proclamation on financial administration.

In terms of regularisation of old and unused government bank accounts, many of these sleeping bank accounts (some as old as 5-10 years) by federal and regional public institutions at National Bank and the Commercial Bank have been closed. The balances of these accounts have been disbursed to the Treasury since the start of the current Ethiopian fiscal year (July 2009).

D) PROCUREMENT REFORM

A new Proclamation on Procurement and Property Administration was adopted on September 9th 2009[130] and new procurement directives are being prepared. Property management was merged with procurement administration. Entities of the Federal Government will have the obligation to prepare a yearly procurement plan that has to be consolidated by the newly created Public Procurement and property Agency (PPA). A board will review (as an independent entity) and decide on complaints regarding public procurement as well as property disposal proceedings.

E) INTERNAL AUDIT

The strengthening of the internal audit function continued with intense training of internal auditors on the use of the audit manual. In the same context several BI received technical support from the ID on how to use the audit function effectively. In addition a three year capacity building plan for the internal audit is being prepared. Moreover a preliminary draft of the first consolidated Internal Audit report for the Federal Government has been elaborated.

F) EXTERNAL AUDIT

A capacity building project (US$ 10 million) is under implementation under PBS II. It aims at addressing the capacity constraints of both the Office of the Federal Auditor General (OFAG) and the Office of the Regional Auditor Generals (ORAGs).

G) FINANCIAL INFORMATION SYSTEM

Eight (8) pilot institutions are supporting the deployment of IFMS system (software and hardware procurement).

An IT training centre is under construction within MOFED to support the implementation of IBEX. Meanwhile trainings have been given to MOFED IT specialists on the development of IBEX version 2.

[130] *The Ethiopian Federal Government Procurement and Property Administration Proclamation*, No. 649/2009, September 9th, 2009 in: Federal Negarit Gazeta No.60

Institutional Factors supporting reform planning and implementation

The Ministry of Capacity Building is not directly involved in PFM Reform. However this ministry is in charge of the Civil Service Reform program (CSRP) which has had a small PFM component.

As a result of this program a new Federal financial law and a regulation together with a number of associated directives were developed, adopted and implemented. These include the Federal Government Financial Administration Proclamation, the Federal Government Financial Regulation, and the directives on Government, public property administration[131].

The CSRP was subsumed in PSCAP project implemented also by the Ministry of Capacity Building. Since 2009 this project has focused mainly (80% of funding) on providing capacity building support to sub national governments.

Government leadership and ownership regarding ongoing PFM reform efforts are both high but the reform challenge facing the Federal Democratic Republic of Ethiopia is still monumental. Capacities of the Government to articulate vision has always been strong but support from foreign partners will still be needed in the future to bolster capacities. Basically external assistance in one form or another will be needed to augment the country's own financial contributions and ideological commitment to the reform agenda.

[131] Refer to 2.3 Box 1

ANNEXES

Annex 1: Performance Indicators Summary

ANNEX 1: TABLE 1 FOR GENERAL SCORING (2007 & 2010)

	PFM OUT-TURNS: Budget credibility	Score 2007	Score 2010	Changes between 2007 and 2010
PI-1/M1	Aggregate expenditure out-turn compared to original approved budget	A	B	The change in performance is not a new trend and only reflects (for a year) a significant increase in petroleum prices.
PI-2/ M1	Composition of expenditure out-turn compared to original approved budget	D	C	A continued focus on maintaining fiscal discipline has resulted in improvements in the predictability in the composition of expenditure out-turn.
PI-3/ M1	Aggregate revenue out-turn compared to original approved budget	B	B	There was no change in performance. However aggregate revenue out- turn in 2010 for the 3 year under consideration improved when compared with the 3 years of the 2007 evaluation.
PI-4/ M1	Stock and monitoring of expenditure payment arrears	A	A	Performance continues to be good in 2010 with no arrears and with these not being a systemic problem.

	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	Score 2007	Score 2010	Changes between 2007 and 2010
PI-5/ M1	Classification of the budget	B	B	Budget classification continues to meet international standards. It may have to be adapted as a result of the gradual introduction of performance budgeting though.
PI-6/ M1	Comprehensiveness of information included in budget documentation	B	A	As a result of a need for more transparency information in budget documentation has been increased.
PI-7/ M1	Extent of unreported government operations	D+	D+	Extra budgetary expenditures continue to represent more than 10% of total expenditures. This is a bit less than in 2007 though.
PI-8/ M2	Transparency of Inter-Governmental Fiscal Relations	B	B+	Fiscal relations between the federal government and the regions continue to be good. The introduction of a new formula for the horizontal allocation of the subsidies to the regions should also be mentioned. Regions are now informed timely on the subsidies to be received from Central Government.
PI-9/ M1	Oversight of aggregate fiscal risk from other public sector entities	C+	C+↑	The score has not changed. The situation has improved though with a better monitoring of the fiscal risk of PE by the Federal government.
PI-10/ M1	Public Access to key fiscal information	D	C	This reflects the need for more transparency at OFAG.

	C. BUDGET CYCLE	Score 2007	Score 2010	Changes between 2007 and 2010
	C (i) Policy-Based Budgeting			
PI-11/ M2	Orderliness and participation in the annual budget process	A	A	A continued focus on allocating resources strategically still makes the budget preparation process one meeting international standards. In addition the process itself has improved due to the new budget manual (2007) and a better use of the IBEX system.
PI-12/ M2	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C↑	The multiyear perspective has slightly improved due to the gradual introduction of performance budgeting. This is not yet reflecting in the score though.
	C (ii) Predictability & Control in Budget Execution			
PI-13/ M2	Transparency of taxpayer obligations and liabilities	B	B+	There is a slight improvement in legislation but discretionary powers of entities involved still fairly limited.
PI-14/ M2	Effectiveness of measures for taxpayer registration and tax assessment	C	B	Due to the full implementation of the TIN system, the effectiveness of measuring for tax payer registration and tax assessment has improved.
PI-15/ M1	Effectiveness in collection of tax payments	NS	NS	No comparison possible because PI-15 was not scored in 2007.
PI-16/ M1	Predictability in the availability of funds for commitment of expenditures	D+	B	A continued focus on efficient service delivery resulted in an overall improvement in cash flow forecast activities in the last three years.
PI-17/ M2	Recording and management of cash balances, debt and guarantees	B	B↑	There is no improvement in the performance of this indicator. Debt recording has improved though.
PI-18/ M1	Effectiveness of payroll controls	B+	B+	No change in performance.
PI-19/ M2	Competition, value for money and controls in procurement	C+	C+	Being committed to deliver efficient services to the community the Government has engaged in elaborating and adopting new procurement legislation. This new legislation is being implemented but as of yet does not reflect in any improvement in public procurement efficiency (as far as the PEFA evaluation is concerned).
PI-20/ M1	Effectiveness of internal controls for non-salary expenditures	C+	B+	There is a clear change in performance between 2007 and 2010 due essentially to the control on disbursement ceilings carried out by IBEX
PI-21/ M1	Effectiveness of internal audit	C+	B+	The improvement in overall performance of internal audit during 2007 and 2010 reflects the government commitment to deliver more efficient public services

	C. BUDGET CYCLE	Score 2007	Score 2010	Changes between 2007 and 2010
	C (iii) Accounting, Recording and Reporting			
PI-22/ M2	Timeliness and regularity of accounts reconciliation	**B+**	**B+**	No change in performance in 2010 with regards to 2007.
PI-23	Availability of information on resources received by service delivery units	**NA**	**NA**	--
PI-24/ M1	Quality and timeliness of in-year budget reports	**C+**	**B+**	From a technical point of view change in performance reflects the full use of the IBEX system for in-year budget execution reporting.
PI-25/ M1	Quality and timeliness of annual financial statements	**C+**	**C+**	Overall there is no change in performance for this indicator. The timeliness of submission of the statements has increased though.
	C (iv) External Scrutiny and Audit			
PI-26/ M1	Scope, nature and follow-up of external audit	**C+**	**C+↑**	Overall performance of external audit has improved due to an improvement in the time needed to audit financial statements.
PI-27/ M1	Legislative scrutiny of the annual budget law	**D+**	**D+↑**	Performance change in 2010 with respect to 2007 due to the introduction and use of manual for review of draft budget law.
PI-28/ M1	Legislative scrutiny of external audit reports	**C+**	**C+**	No change in performance.

	D. DONOR PRACTICES	Score 2007	Score 2010	Changes between 2007 and 2010
D-1/ M1	Predictability of Direct Budget Support	**C**	**NS**	--
D-2/ M1	Financial information provided by donors for budgeting and reporting on project and program aid	**C**	**C**	No change in performance
D-3/ M1	Proportion of aid that is managed by use of national procedures	**NS**	**C**	--

ANNEX 1: TABLE 2 FOR DETAILED SCORING (2007 & 2010)

Indicator	Scoring	D (i)	D (ii)	D (iii)	D (iv)
A. PFM OUT-TURNS: Credibility of the budget					
Indicator	**Scoring**	**D (i)**	**D (ii)**	**D (iii)**	**D (iv)**
PI-1/ M1	**A/B**	--	--	--	--
PI-2/ M1	**D/C**	--	--	--	--
PI-3/ M1	**B/B**	--	--	--	--
PI-4/ M1	**A/A**	A/A	A/A	--	--
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5/ M1	**B/B**	--	--	--	--
PI-6/ M1	**B/A**	--	--	--	--
PI-7/ M1	**D+/D+**	D/D	D/B	--	--
PI-8/ M2	**B/B+**	A/A	B/B	A/B	--
PI-9/ M1	**C+/C+↑**	C/C↑	A/A	--	--
PI-10/ M1	**D/C**	--	--	--	--
C. BUDGET CYCLE					
C (i) Policy-Based Budgeting					
PI-11/ M2	**A/A**	A/A	A/A	A/A	--
PI-12/ M2	**C/C↑**	C/C↑	C/C	B/C	D/C
C (ii) Predictability & Control in Budget Execution					
PI-13/ M2	**B/B+**	B/B	B/A	B/B	--
PI-14/ M2	**C/B**	C/B	C/B	C/B	--
PI-15/ M1	**NS/NS**	NS/NS	A/A	A/A	--
PI-16/ M1	**D+/B**	C/B	D/B	B/B	--
PI-17/ M2	**B/B↑**	C/C↑	A/B	B/B	--
PI-18/ M1	**B+/B+**	B/B	A/A	B/B	B/B
PI-19/ M2	**C+/C+**	D/D	B/B	B/B	--
PI-20/ M1	**C+/B+**	C/A	C/B	B/B↑	--
PI-21/ M1	**C+/C+↑**	A/A	C/A	B/B↑	--
C (iii) Accounting, Recording and Reporting					
PI-22/M2	**B+/B+**	B/B	A/A	--	--
PI-23	Regional PEFA	--	--	--	--
PI-24/ M1	**C+/B+**	C/A	A/A	C/B	--
PI-25/ M1	**C+/C+**	C/B	B/B	C/C	--
C (iv) External Scrutiny and Audit					
PI-26/ M1	**C+/C+↑**	C/C	B/A	C/C	--
PI-27/ M1	**D+/D+↑**	C/D	D/D↑	C/C	B/B
PI-28/ M1	**C+/C+**	A/A	C/C	C/C	--
D. DONOR PRACTICES					
D-1/ M1	**C/NS**	C/C	C/NS	**--**	**--**
D-2/ M1	**C/C**	C/C	C/C	**--**	**--**
D-3/ M1	**NS/C**	NS/C	--		

Annex 2: Source of information

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Ministry of Finance and Economic Development: www.mofed.gov.et

Office of the Federal Auditor General: www.ofag.gov.et

Public Procurement and Property Administration Agency: www.ppa.mofed.gov.et

Annex 3: List of persons met

Federal PEFA ETHIOPIA: List of persons met

Ministry of Finance

Ato Degu, *Head Final Accounts*
Ato Hyeru Hassan, *Experts Final Accounts*
Ms Selassie Aster, *Experts Final Accounts*

Ato Teferi Demere, *Head Budget Preparation and Administration Sub-process*
Ato Demelash Megersa, *Budget Department*
Ato Mezgebu Amha, *Head Macroeconomic Policy and Management*
Ato Mohamed Mussa, *Coordinator of PEFA evaluations*

Ato Johannes, *Inspection Department*

Ato Desta Lambedo, *Macroeconomic Department*

Ato Getachew Negera, *Head Treasury Department*
Ato Bescabtu Aewaga, *Expert Treasury Department*

Ato Ygezu Daba, *Head Finance and Procurement Support Process*

Yalemzewd Tedla, *Head Credit Department*

PPA

Ato Tsegaye Abebe, *Director General Public Procurement Agency*

ERCA

Ato Lemma Gudissa, *Director of Customs Operations Directorate*

Office of the Federal Auditor General

Ato Gemechu Debiso, *Federal Auditor General*

Parliament

Ato Atsbeha Aregawi, *Chairman of Budget & Finance Affairs Committee*
Ato Asrat Abebe, *Deputy Chairman, the Budget and finance Affairs Standing Committee*

Chamber of Commerce of Addis Ababa

Ato Fekadu Bekele

EU Delegation

Wagner Christoph, *Head of section, Economic, Trade, Social, Regional Integration*
Musillo Benedetta, *Economic Attachée*
Zewdie Ephraim, *Economist*

African Development Bank

Goyal Devinder, *Regional Financial Management Coordinator, Ethiopia Country Office*

International Monetary Fund (IMF)

Honda Jiro, *Senior Economist, Africa Department, Wash DC, USA*
Netsere Muche, *Economist, IMF Res Rep Office, Addis Ababa, FDRE*

The World Bank (WB)

Marcos, Mirafe Gebriel, *Economist, Addis Ababa, FDRE*

Netherlands (Embassy of)

Poley Hans, *First secretary, economic affairs*

Japan (Embassy of)

Seki Chigusa, *Coordinator for economic cooperation, Addis Ababa, FDRE*

ANNEX 4: Files for Calculating PI-1, PI-2 and PI3

Annex 4: Table 1 (For PI-1 and PI-2 EFY1999-2006/07)

	Sub-functional head	**budget**	**actual**	Difference	absolute	percent
110	Organs of State	100,237,500.00	152,933,850.86	52,696,350.86	52696350.86	52.6%
120	Justice & Public Order	582,957,400.00	547,372,713.99	-35,584,686.01	35584686.01	6.1%
140	National Defence	3,000,000,000.00	2,563,814,722.26	-436,185,277.74	436185277.7	14.5%
150	General Services	855,266,064.00	818,108,596.69	-37,157,467.31	37157467.31	4.3%
210	Agriculture & Natural Resources	2,373,251,128.00	2,476,450,429.27	103,199,301.27	103199301.3	4.3%
220	Water Resources	675,356,380.00	650,401,713.12	-24,954,666.88	24954666.88	3.7%
230	Trade, Industry & Tourism	153,158,875.00	118,994,041.15	-34,164,833.85	34164833.85	22.3%
250	Mining & Energy	1,283,107,414.00	1,219,204,934.29	-63,902,479.71	63902479.71	5.0%
260	Transport & Communication	273,866,050.00	190,571,604.06	-83,294,445.94	83294445.94	30.4%
270	Construction	2,709,967,980.00	2,047,172,207.61	-662,795,772.39	662795772.4	24.5%
310	Education	3,579,906,130.00	2,959,281,039.56	-620,625,090.44	620625090.4	17.3%
320	Information & Communication	44,862,900.00	35,715,380.43	-9,147,519.57	9147519.57	20.4%
330	Culture & Sport	109,895,300.00	109,115,063.48	-780,236.52	780236.52	0.7%
340	Health	119,114,380.00	222,605,295.27	103,490,915.27	103490915.3	86.9%
350	Labour & Social Affairs	32,010,800.00	11,937,202.18	-20,073,597.82	20073597.82	62.7%
360	Prevention & Rehabilitation	188,522,200.00	169,188,712.12	-19,333,487.88	19333487.88	10.3%
410	Transfer	12,480,000.00	15,181,832.24	2,701,832.24	2701832.24	21.6%
420	None	96,454,100.00	94,809,198.38	-1,644,901,62	1644901.62	1.7%
430	Region Subsidies	9,055,790,000.00	9,543,604,513.87	487,814,513.87	487814513.9	5.4%
460	Contingencies	460,000,000.00	28,878,067.40	-431,121,932.60	431121932.6	93.7%
470	Miscellaneous	400,000,000.00	19,048,464.68	-380,951,535.32	380951535.3	95.2%
	total expenditure	**26,106,204,601.00**	**23,994,389,582.91**	**-2,111,815,018.09**	**2111815018**	**8.1%**
	composition variance	**26,106,204,601.00**	**23,994,389,582.91**		**3600828424**	**13.8%**

Source: FDRE, Budgetary Revenue & Expenditure for EFY 1999 (2006/07)

Annex 4: Table 2 (For PI-1 and PI-2 EFY2000-2007/08)

	Sub-functional head	**budget**	**actual**	difference	Absolute	percent
110	Organs of State	101,444,300.00	193,415,642.11	91,971,342.11	91971342.11	90.7%
120	Justice & Public Order	728,738,700.00	686,785,447.91	-41,953,252.09	41953252.09	5.8%
140	National Defence	3,500,000,000.00	3,899,425,985.90	399,425,985.90	399425985.9	11.4%
150	General Services	726,935,845.00	750,852,125.64	23,916,280.64	23916280.64	3.3%
210	Agriculture & Natural Resources	2,482,792,279.00	2,331,964,126.01	-150,828,152.99	150828153	6.1%
220	Water Resources	910,306,787.00	867,438,374.39	-42,868,412.61	42868412.61	4.7%
230	Trade, Industry & Tourism	159,000,458.00	192,011,107.10	33,010,649.10	33010649.1	20.8%
250	Mining & Energy	81,922,597.00	74,105,076.37	-7,817,520.63	7817520.63	9.5%
260	Transport & Communication	381,393,550.00	231,973,299.50	-149,420,250.50	149420250.5	39.2%
270	Construction	3,740,745,192.00	3,703,344,613.93	-37,400,578.07	37400578.07	1.0%
310	Education	3,970,114,512.00	3,512,235,223.50	-457,879,288.50	457879288.5	11.5%
320	Information & Communication	68,963,890.00	57,267,230.71	-11,696,659.29	11696659.29	17.0%
330	Culture & Sport	134,808,258.00	121,531,549.99	-13,276,708.01	13276708.01	9.8%
340	Health	140,222,420.00	369,157,919.08	228,935,499.08	228935499.1	163.3%
350	Labour & Social Affairs	16,158,000.00	14,194,325.73	-1,963,674.27	1963674.27	12.2%
360	Prevention & Rehabilitation	24,273,300.00	30,603,244.15	6,329,944.15	6329944.15	26.1%
410	Transfer	1,346,936,300.00	1,371,352,653.19	24,416,353.19	24416353.19	1.8%
430	Region Subsidies	13,555,800,000.00	13,709,377,899.48	153,577,899.48	153577899.5	1.1%
460	Contingencies	960,000,000.00	19,632,924.02	-940,367,075.98	940367076	98.0%
470	Miscellaneous	509,979,842.00	44,090,837.09	-465,889,004.91	465889004.9	91.4%
	total expenditure deviation	**33,540,536,230.00**	**32,180,759,605.80**	**-1,359,776,624.20**	**1359776624**	**4.1%**
	composition variance	**33,540,536,230.00**	**32,180,759,605.80**		**3271247872**	**9.8%**

Source: FDRE, Budgetary Revenue & Expenditure for EFY 2000 (2007/08)

Annex 4: Table 3 (For PI-1 and PI-2 EFY2001 –2008/09)

	Sub-functional head	**budget**	**Actual**	difference	absolute	percent
110	Organs of State	173,979,900.00	300,913,225.04	126,933,325.04	126933325	73.0%
120	Justice & Public Order	1,000,417,400.00	892,707,264.55	-107,710,135.45	107710135.5	10.8%
140	National Defence	4,000,000,000.00	3,772,654,637.45	-227,345,362.55	227345362.6	5.7%
150	General Services	735,685,260.00	726,415,838.53	-9,269,421.47	9269421.47	1.3%
210	Agriculture & Natural Resources	2,599,515,900.00	2,435,617,940.17	-163,897,959.83	163897959.8	6.3%
220	Water Resources	1,109,256,128.00	1,077,041,121.73	-32,215,006.27	32215006.27	2.9%
230	Trade, Industry & Tourism	136,194,465.00	104,100,013.71	-32,094,451.29	32094451.29	23.6%
250	Mining & Energy	100,438,153.00	233,389,594.75	132,951,441.75	132951441.8	132.4%
260	Transport & Communication	372,896,591.00	416,325,301.95	43,428,710.95	43428710.95	11.6%
270	Construction	5,781,802,400.00	6,517,622,668.99	735,820,268.99	735820269	12.7%
310	Education	4,973,825,750.00	4,411,460,999.61	-562,364,750.39	562364750.4	11.3%
320	Information & Communication	89,129,100.00	65,143,658.09	-23,985,441.91	23985441.91	26.9%
330	Culture & Sport	162,285,800.00	160,162,105.86	-2,123,694.14	2123694.14	1.3%
340	Health	148,936,880.00	308,498,903.99	159,562,023.99	159562024	107.1%
350	Labour & Social Affairs	15,710,500.00	14,136,332.89	-1,574,167.11	1574167.11	10.0%
360	Prevention & Rehabilitation	26,505,300.00	10,104,230.97	-16,401,069.03	16401069.03	61.9%
410	Transfer	1,364,892,000.00	1,400,055,149.09	35,163,149.09	35163149.09	2.6%
420	None	0.00	122,840,831.88	122,840,831.88	122840831.9	
430	Region Subsidies	17,538,829,000.00	16,555,605,816.60	-983,223,183.40	983223183.4	5.6%
460	Contingencies	1,060,000,000.00	99,503,250.93	-960,496,749.07	960496749.1	90.6%
470	Miscellaneous	400,000,000.00	5,827,277.89	-394,172,722.11	394172722.1	98.5%
	total expenditure deviation	**41,790,300,527.00**	**39,630,126,164.67**	**-2,160,174,362.33**	**2160174362**	**5.2%**
	composition variance	**41,790,300,527.00**	**39,630,126,164.67**		**4873573866**	**11.7%**

Source: FDRE, Budgetary Revenue & Expenditure for EFY 2001 (2008/09)

Annex 4: Table 4 (For PI-3)

	APPROVED BUDGET			ACTUAL		
DOMESTIC TAXES	**EFY1999 (2006/07)**	**EFY2000 (2007/08)**	**EFTY2001 (2008/09)**	**EFY1999 (2006/07)**	**EFY2000 (2007/08)**	**EFTY2001 (2008/09)**
TAX REVENUES	14,646,500,000	20,308,250,000	25,414,210,000	13,543,281,290	18,459,419,425	23,062,147,639
Tax on income, profit & capital gain	*2,858,040,000*	*3,600,795,550*	*5,198,750,000*	*2,638,228,488*	*3,798,791,303*	*5,428,269,058*
Domestic Indirect Taxes	*3,551,064,002*	*3,905,554,447*	*5,415,880,000*	*2,658,642,966*	*3,539,467,345*	*5,254,627,735*
Foreign trade taxes & duties	*8,237,395,998*	*12,801,900,003*	*14,799,580,000*	*8,246,409,836*	*11,121,160,777*	*12,379,250,846*
NON TAX REVENUES	4,347,940,000	4,930,510,000	6,679,101,147	3,162,256,985	5,827,352,415	8,805,908,623
Administrative fees & charges	*338,544,749*	*319,507,025*	*264,930,351*	*269,189,358*	*318,734,156*	362,565,639
Sales of public goods & services	*385,591,038*	*398,885,720*	*422,414,656*	*300,977,511*	*374,833,810*	614,540,883
Government investment income	*3,469,016,000*	*3,246,579,371*	*5,636,760,000*	*2,292,796,397*	*3,639,756,953*	7,266,336,624
Miscellaneous rev	*81,958,913*	*123,560,000*	*147,196,140*	*274,551,167*	*1,194,178,991*	171,573,287
Capital revenue	*72,829,300*	*841,977,884*	*207,800,000*	*24,742,551*	*299,848,506*	390,892,190
TOTAL	**18,994,440,000**	**25,238,760,000**	**32,093,311,147**	**16,705,538,275**	**24,286,771,841**	**31,868,056,262**
Actual/approved				87.95%	96.23%	99.30%

Sources: Federal Democratic Republic of Ethiopia, MOFED budget and actual revenue and expenditures for EFY1999, EFY 2000 & EFY2001