



THE CITY GOVERNMENT OF ADDIS ABABA

**FINANCIAL MANAGEMENT PERFORMANCE
OF THE CITY GOVERNMENT (PEFA REPORT)**

June 2015

CURRENCY AND EXCHANGE RATES

Currency unit = Ethiopian Birr (ETB)

US\$ 1 = ETB 19.46 (as of April 24, 2014)

Ethiopian Fiscal Year (EFY): July 8 – July 7

EFY 2005 = Gregorian FY 2013 (July 1, 2012 – June 30, 2013)

In this document the term FY refers to the Gregorian fiscal year, unless described as EFY.

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Abbreviations and Acronyms

AACRA	Addis Ababa City Roads Authority
AATAC	Addis Ababa Tax Appeal Commission
AAWASA	Addis Ababa Water and Sewerage Authority
ADB	African Development Bank
AFROSAI-E	African Organization of Supreme Audit Institutions in English-speaking Countries
AGA	Autonomous government agency
BI	Budget Institutions (ministries, agencies, institutions, and other budgetary units)
BoE	Bureau of Education
BoH	Bureau of Health
BoFED	Bureau of Finance and Economic Development
CAG	City Auditor General
CBE	Commercial Bank of Ethiopia
COFOG	Classification of Functions of Government
CRC	Complaints Review Committee (procurement)
CSA	Central Statistics Agency
CSRP	Civil Service Reform Program
DAG	Development Assistance Group
DFID	Department for International Development (UK)
DSA	Debt Sustainability Analysis
EU	European Union
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Program
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian Birr
EU	European Union
FASP	Finance Administration Support Process (department)
FATP	Financial Accountability and Transparency Project
FEACC	Federal Ethics Anti-Corruption Commission
FEDC	Finance and Economic Development Committee (of the City Council)
FM	Financial management
FMS	Financial Management Specialist
FY	Financial Year or Fiscal Year
GDP	Gross Domestic Product
GOE	Government of Ethiopia
GFS	Government Finance Statistics, IMF
GFSM	GFS Manual
GTP	Growth and Transformation Plan 2010/11-2014/15
HDPO	Housing Development Project Office
HIV/AIDS	Human Immunodeficiency Virus /Acquired Immunodeficiency Syndrome
HRSP	Human Resource Support Process (department)
IBEX	Integrated Budget and Expenditures
ICP	Inspection Core Process (Department)
IDC	Industrial Development Corporation
IDA	International Development Association (World Bank)
IFMIS	Integrated Financial Management Information System
ILO	International Labour Organization
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
MDG	Millennium Development Goals

MEFF	Macroeconomic and Fiscal Framework
MoFED	Ministry of Finance and Economic Development
MoH	Ministry of Health
MTEF	Medium-Term Expenditure Framework
NA	Not Applicable (in PEFA assessment)
NBE	National Bank of Ethiopia (Central Bank)
NGO	Non-Governmental Organization
NR	Not Rated (by PEFA, for lack of information)
NS	Not Scored (by PEFA, includes NR and NA)
OFAG	Office of the Federal Auditor General
OPCFM	Operations Policy and Country Services – Financial Management Unit, World Bank
PAC	Public Accounts Committee
PBS	Promotion of Basic Services
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator (PEFA)
PPA	Public Procurement and Property Administration Authority
PPACP	Public Procurement Authority and Core Process
PREM	Poverty Reduction and Economic Management, World Bank
PSCAP	Public Sector Capacity Building Program
PSR	Public Sector Reform
RFQ	Request for Quotation
SIGTAS	Standard Integrated Government Tax Administration System
SN	Sub-National
TAC	Tax Appeal Commission
TIN	Taxpayer Identification Number
TOR	Terms of Reference
TSA	Treasury Single Account
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children’s Fund
USAID	US Agency for International Development
USD	US Dollars
VAT	Value Added Tax
WB	World Bank
YTD	Year to Date

Summary Assessment

This is the report of the second Public Expenditure and Financial Accountability (PEFA) assessment of the Addis Ababa City Government (AACG). The first assessment was done in FY 2010.

Table SA.1 at the end of this chapter provides a brief summary of scores for the Performance Indicators and comparisons with the 2010 assessment. A summary of the dimensions is provided in Appendix A.

Integrated Assessment of Public Financial Management (PFM) Performance

Budget Credibility

The budget is neither a realistic projection of either revenue or expenditure nor a credible statement of the financial consequences of Addis Ababa City Government (AACG) policies (PI-1 to 4). There are high expenditure variances, particularly on capital expenditure, where successive budgets provide for an unrealistic level of project execution. During the year there are many significant transfers between budgets, indicating rapid changes in priorities and/or poor budgeting. On the revenue side, while annual budget targets for tax revenue are over-achieved, the targets for non-tax revenue are under-achieved, mainly due to gross over-estimation of urban land lease fees. On balance, revenue is less than budgeted, but still sufficient to meet actual expenditure. Expenditure arrears have been brought below 2 percent of total expenditure.

Comprehensiveness and Transparency

The classification of the budget (PI-5) allows tracking of expenditure by administrative unit, economic category, function and source of funds. The same chart of accounts is used at all levels of government, which allows ready consolidation and analysis. Differences from standard international classifications, such as IMF-GFS economic classification and UN-COFOG functional classification, are minor and easily bridged. Budget documentation, however, does not meet some of the benchmarks for disclosing the impact of new budget proposals and out-turns of previous years (PI-6). There is improved public transparency of key fiscal documents (PI-10).¹

The budget is comprehensive except for omission of significant aid through Channels 2 and 3 and expenditures there from (PI-7). Sectoral spending is likely to be understated and not aligned with progress toward meeting the MDGs. Fiscal relations with the Federal Government are fairly

¹ Donor funding to regions is provided through the following channels:

- Channel 1: Donor funding for projects and programs is channeled through MoFED to BoFED (Channel 1a), the spending being budgeted for at federal level, or is provided straight to BoFED (Channel 1b), which then allocates the funds to sector bureaus and woredas, the spending being budgeted for at regional level. Most of this spending represents UN-ExCom funded projects (UNICEF, UNDP, UNFPA), the annual amounts being very small.
- Channel 2: Donor funding for projects/programs is channeled through federal government line ministries to the corresponding regional sector bureaus (Channel 2a) or is provided straight to the sector bureaus (Channel 2b). The Channel 2a funding is supposed to be budgeted for at federal ministry level. The Channel 2b funding is supposed to be budgeted for at regional level, but, as with other regions, tends not to be the case, the actual spending not being reported to BoFED either. The spending therefore constitutes unreported EBOs, the magnitude of which is not known. Judging by the experience in other regions assessed, the amounts could be significant.
- Channel 3: Donors (including NGOs) fund projects directly, by-passing both BoFED and sector bureaus.

transparent on the block grant, as the AACG is represented in the House of the Federation and takes part in the discussions on the application of the formula (HLG-1). Further down the chain, the allocation to sub-cities and woredas is also fairly transparent, although applied in a top-down fashion. Capital grants are less transparent or predictable. Reporting by sub-cities and woredas is up to date (PI-8).

Fiscal risk to the city budget arises from the operations of public enterprises and other agencies that can incur liabilities. There is no regular consolidated assessment of fiscal risk (PI-9).

Policy-Based Budgeting

Budget preparation is becoming more systematized and participative, and better aligned to the Growth and Transformation Plan (GTP), but the fiscal framework is still unstable and unreliable. Budget institutions are given expenditure ceilings within which to prioritize their projects and activities, but even though the ceilings are politically approved, they are continually being changed or re-negotiated. Even after the city budget is approved and Budget Institutions (BIs) are notified of their budget allocations, re-allocations are made during the year. The budget is approved in time for the New Year (PI-11). There is a three-year perspective which is intended to allow sector offices to implement their strategic plans and procurement plans in a systematic manner, but the plans are not made within reliable resource envelopes and show major funding gaps against ambitious investment plans. Recurrent expenditures are being better linked to capital expenditures, but capital expenditures are still preferred over operating and maintenance expenditures irrespective of comparative productivity, as evidenced by the Financial Administrative Proclamation, which does not allow savings on capital budgets to be used for better utilization of existing assets (PI-12).

Predictability and Control in Budget Execution

The revenue framework is fairly clear and transparent, and taxpayers have ready information on their tax liabilities. The revenue authority is actively identifying and registering new taxpayers. There is a strong emphasis on education and building taxpayer compliance. In addition, the tax appeals system is transparent and fair. Tax audits and debt collection also show improvement since the last assessment. The main weakness is the lack of overall control over assessments, collections and arrears. These are reconciled at the level of the individual taxpayer, but not in total (PI-13 to 15).

Centralized cash management is strong, although the lack of firm control through the integrated budget and expenditures system (IBEX) on commitments for which there will not be sufficient cash to make payments is a weakness (PI-19 (i)). IBEX only controls commitments against budgets, not cash. It is expected that this will be addressed by the Integrated Financial Management Information System (IFMIS) currently being piloted. In the past few years, there has been sufficient cash to meet all commitments, and suppliers/contractors have not suffered. In-year budget adjustments are made to most budget institutions, although there are no data on the number of adjustments. The Treasury Single Account (TSA) includes all the zero-balance accounts for expenditure (PI-16 & 17).

The payroll is well controlled by the BIs. Although personnel data and payroll data are not electronically linked, the payroll is regularly audited against personnel records, contributing to an improved score on PI-18. Procurement is also decentralized and the legal framework is sound. According to reports from procuring entities, about 90 percent of procurements are through open competitive bidding. Procuring entities are audited by the Bureau of Finance and Economic

Development (BoFED) Public Procurement Agency, but less than 10 percent are audited each year due to lack of staff. The main issue in procurement is the high turnover of procurement officers due to low salaries and the lack of a procurement cadre with a promotion ladder. The demand for training is high and the Public Procurement and Property Administration Authority (PPA) has been providing extensive training through the Expenditure Management and Control Program (EMCP) and Promotion of Basic Services (PBS) Program, but there is also leakage to the private sector and into other (non-procurement) posts (PI-19).

Other internal controls and compliance are of good standard. Internal controls are comprehensive and generally understood, although affected by high staff turnover. Internal audit is now functional and effective in all budgetary institutions, under the supervision of BoFED Inspection Department (PI-20 and 21).

Accounting, Recording and Reporting

The IBEX system underpins regular, reliable, and timely financial reporting, both during the year (PI-24) and at the end of the year (PI-25). At the sub-city level, detailed information is available on resources provided to front-line service delivery units, such as primary schools and health centers (PI-23). Reports, however, include only actual payments and (end-of-year) accruals, not outstanding commitments. They also omit significant aid in kind, such as from UNESCO and UNICEF, and cash expenditure through Channels 2 and 3. Bank reconciliation and reconciliation and clearance of advances are up to date (PI-22).

External Scrutiny and Audit

External audit coverage is low (less than 50 percent of all expenditure is audited), but audit plans are based on assessment of risk, so risk coverage is likely higher. Audit reports have recently been updated, but the report on FY 2012/13 (EFY 2005) was delayed until July 2014. There is a good system of follow up by the CAG, which is reinforced by the Finance and Economic Development Committee (FEDC) of the city council. The FEDC has a dual role of scrutinizing budgets ex ante, and their execution ex post. Following hearings based on the CAG reports and recommendations, the FEDC does not issue separate recommendations or make a formal report to the council. Audit reports also are not published. This appears to be a gap that must be addressed to close the cycle of accountability to the public.

Assessment of the Impact of PFM Weaknesses

Aggregate Fiscal Discipline

The high variances on both revenue and expenditure, although they have hitherto been in the same direction, leave a risk that a budget surplus (or at least a fiscal balance) may not be achieved. This is made worse by the lack of information: there are no budgeted cash flow statements nor in-year analysis and monitoring of the surplus. Control of cash is strong, but insufficient control of receivables and payables could result in actual deficits, discovered only after the accounts are closed.

The omission of external loans and grants (other than Channel 1) affects fiscal discipline. Although these do not affect the cash position, separate accounting for them makes comprehensive control more difficult. Similarly, public enterprises and other agencies that incur liabilities, whether or not

guaranteed by the City or Federal Government, need to be reviewed at least annually to assess the risk of their liabilities falling onto the city budget.

Strategic Allocation of Resources

The framework for all planning and budgeting is the GTP. This plan was framed in a highly participative and consultative way. It is the basis for annual planning and budgeting, but strategic plans need to be made within medium-term resource projections. The failure to set sector and institutional strategies within resource constraints is administratively wasteful, and risks deviation of budgets from the GTP. Revenue shortfalls, for instance, could lead to hasty re-allocations and cuts on priority programs.

The City Government has a high degree of decentralization to sub-cities and woredas. In an unstable and unpredictable environment, the decentralization of decision making to the woreda (and kebele) levels allows for local knowledge and circumstances to enter resource decisions to the advantage of the respective communities. Block grants can be used strategically to meet needs as they emerge.

Efficient Service Delivery

Most public expenditure is through procurement and payroll systems. The controls in these systems promote value for money, lower unit costs and greater efficiency in service delivery.

The omission of aid in kind and Channel 2 and 3 aid from the accounts results in the under-statement of expenditure and under-estimation of unit costs. This prevents good decisions on: (1) cost control (comparison of alternative ways of delivering outputs); (2) pricing and fee-setting on goods and services that the Government sells; and (3) the relative merits of contracting out versus own force provision versus using its own force.

The lack of public disclosure of key fiscal information limits civil society monitoring and feedback on delivery of public services. This in turn limits public demand for increased efficiency and effectiveness.

Prospects for Reform Planning and Implementation

Reform planning is part of the Federal PFM reform planning process (see description at chapter 4). There is no separate reform plan at the City Government level.

Although the changes in PEFA scores are mixed, overall progress is good. Public financial management reforms in the City Government since FY 2010 include new legislation and training in financial administration, procurement and property administration, the rollout of IBEX information system to sector bureaus, sub-cities and woredas and the connection of woredas through the Woredanet, implementation of the zero-balance system for budget institutions in Addis Ababa, the strengthening of internal audit through audit committees and revised manuals, and greater dissemination of budget information to the public through various media.

The prospects for continuing reforms led by the Ministry of Finance and Economic Development (MoFED) are good.

Table SA.1 PEFA Performance Indicators for the City Government, FY 2010–14

	1. PFM OUT-TURNS: Credibility of the budget	Score 2010	Score 2014
HLG-1	Predictability of transfers from higher-level government	D	C+
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	D
PI-2	Composition of expenditure out-turn compared to original approved budget	C	D+
PI-3	Aggregate revenue out-turn compared to original approved budget	D	D
PI-4	Stock and monitoring of expenditure payment arrears	A	B+
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	Score 2010	Score 2014
PI-5	Classification of the budget	B	B
PI-6	Comprehensiveness of information included in budget documentation	D	B
PI-7	Extent of unreported government operations	NR	C+
PI-8	Transparency of Inter-Governmental Fiscal Relations	A	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+	C+
PI-10	Public Access to key fiscal information	B	A
	C. BUDGET CYCLE	Score 2010	Score 2014
	C (i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	A	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	NS	B
	C (ii) Predictability & Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	B	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+	B
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+↑
PI-17	Recording and management of cash balances, debt and guarantees	B+	A
PI-18	Effectiveness of payroll controls	C+	B+
PI-19	Competition, value for money and controls in procurement	C+	B <i>Comparison not possible (revised method.)</i>
PI-20	Effectiveness of internal controls for non-salary expenditures	B	B↑
PI-21	Effectiveness of internal audit	C+	C+
	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	NR	A
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality and timeliness of annual financial statements	C+	C+↑
	C (iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+	D+
PI-27	Legislative scrutiny of the annual budget law	C+	D+
PI-28	Legislative scrutiny of external audit reports	C+ <i>((i) & (iii) seem incorrect)</i>	D+ <i>(no real change)</i>
	D. DONOR PRACTICES	Score 2010	Score 2014
D-1	Predictability of Direct Budget Support	NA	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	D
D-3	Proportion of aid that is managed by use of national procedures	A	C

In summary, it appears that 14 indicator scores have remained unchanged, six have gone down (PI-2, 4, 11, 27, 28 and D-3), seven have gone up (HLG-1, PI-6, 10, 13, 14, 17, 18 and 20), while three were not scored in 2010 (PI-7, 12, 23) and one was scored on a different basis (PI-19). D-1 was not scored in either assessment. Overall there has been significant progress. However, the comparisons are strongly affected by new information taken into account in this assessment, which was not considered in the FY 2010 assessment. These factors are explained in the individual indicator boxes and in Appendix 1.

1. Introduction

1.1 Background and Objectives

The first Public Expenditure and Financial Accountability (PEFA) assessment of the Addis Ababa City Government (AACG) was done in FY 2010. Following discussions in FY 2013 between donor partners and the Ministry of Finance and Economic Development (MoFED), MoFED set up a technical team to supervise the process. On July 31, 2013, the Minister of State, MoFED, nominated a team of fourteen members, comprising the Head of the Expenditure Management and Control Program (EMCP) Coordinating Unit (chair), 10 directors/senior officers of MoFED and three directors/senior officers of the Public Procurement and Property Administration Agency (PPA).

After a period of consultation among donor partners and MoFED, a Concept Note was agreed upon,² covering a set of seven PEFA assessments - the Federal Government, AACG and five regions (states) – Oromia, Amhara, SNNPR, Tigray and Somali – in addition to a Synthesis Report consolidating the findings. This report is the second to be produced and covers only the AACG.

The objective of the PEFA assessment is to provide an independent assessment of the quality and performance of the public financial management system in the City Government. This will be used to benchmark progress against a standard set of indicators and as the basis for dialogue on ongoing PFM reforms supported through the EMCP as well as for new PFM initiatives such as the request from MoFED to the World Bank to move forward with the preparation of a stand-alone PFM project. It may also feed into the proposed projects in tax administration, audit and transparency to be funded by DFID. In accordance with PEFA philosophy, the report itself makes no recommendations, but provides a pool of reliable information on which dialogue can be based.

It is not the purpose of the assessment to evaluate and score different institutions or individuals in charge within the City Government. It is rather to strengthen the City Government's own PFM reform program and identify priorities within the reform agenda.

1.2 Scope

The City of Addis Ababa has three administrative levels: the City Government of Addis Ababa is the first level, which includes 58 budgetary institutions - sectoral bureaus, authorities and agencies. The second level of the city consists of ten sub-cities, which are equivalent to the zonal level in the regions. Sub-cities are a separate level of government below the City Government, having their own cabinets and elected councils. Sub-cities administer the woredas under their jurisdiction and are responsible for law and order in their respective areas (City Revised Charter, section 30). The third level is urban woredas, which are units of sub-cities. There are currently 116 woredas, but the number has been increasing. Sub-cities and woredas have elected councils, so they have dual accountability to their councils and upward to the city government.

² World Bank (FY2013) Concept Note: Ethiopia: Public Expenditure & Financial Accountability (PEFA) Assessment 2014

The city budget and accounts consolidate revenue and expenditure at all three levels: there are no separate accounts at each level. A single legal framework also applies at all three levels. This assessment therefore covers all three levels, even though the sub-cities and woredas are separate legal bodies and have considerable autonomy in budget allocations.

Table 1.1 Structure of City Government of Addis Ababa FY 2012/13

Institutions	Number of entities	Total expenditure ETB millions	% of total
City Government	58	8,010	72.1
Sub-cities	10	2,496	22.5
Woredas	116	611	5.5
Total	184	11,117	100.0

Source: BoFED Accounts FY 2012/13 (EFY 2005), Schedule of Expenditure at each level. Note that expenditure on primary schools and health centers is recorded at sub-city level, not by woredas.

1.3 Process of the City Assessment

The assessment follows the Supplementary Guidelines for the Application of the PEFA Framework to Sub-National Governments (January 2013) and Good Practice when Undertaking a Repeat Assessment (February 2010) issued by the PEFA Secretariat. Scoring of all 32 indicators was done according to the revised PEFA Framework (January 2011), together with clarifications and other guidance collected in the PEFA Field Guide (May 2012). The revised Framework changed the method of calculation of indicators PI-2, PI-3, and PI-19; therefore, this report includes recalculation of the PI-2 and PI-3 scores given in the 2010 assessment so as to make a fair comparison with 2014. It was not possible to recalculate the PI-19 score.

The process included a preparation and training stage, a fieldwork stage, and a report drafting stage. The training consisted of: (1) a half-day High Level Workshop in Addis Ababa on January 28, 2014, inaugurated by HE Dr Abraham Tekeste, State Minister, MoFED. Almost 50 high level officials attended, including Directors from MOFED, Regional BoFED Heads and Auditors General; and (2) a three-day Training Workshop in Hawassa, January 28 – February 1, 2014, attended by almost 90 government officials who are the main counterparts for the assessments. The training was delivered by the Head of the PEFA Secretariat in Washington D.C. and the Lead Financial Management Specialist (FMS) in the World Bank Operations Policy and Country Services – Financial Management Unit (OPCFM).

The main fieldwork for the Addis Ababa City assessment was completed from March 17 to 29, 2014. It included an initial meeting with the Bureau of Finance and Economic Development (BOFED) Head and his PEFA team, followed by interviews with civil servants at the level of department heads and technicians (listed in Appendix B) and a review of key documents (see Appendix C). Interviews with donor agencies and the Addis Ababa Chamber of Commerce were undertaken in the course of the federal-level assessment. The Assessment Team comprised three independent consultants – Tony Bennett (Team Leader), Getnet Haile and Zeru Gebre Selassie, funded by DFID-UK, Irish Aid, the U.S. Agency for International Development (USAID), and the

World Bank, under the supervision of Parminder Brar, World Bank Sector Leader and Lead Financial Management Specialist. Individual terms of reference were provided to the consultants, based on the Concept Note. As far as possible, the information collected was triangulated with other sources.

A draft report was prepared during and after the fieldwork, and was presented to World Bank on April 24, 2014. It was circulated to all stakeholders and peer reviewers (see below under quality assurance). Comments were received from the City BOFED on July 10. These were addressed in a second draft issued on July 19, which was discussed at a workshop in Addis Ababa on October 15. Further comments by the City Administration and World Bank were addressed in a draft final report, which was submitted to the PEFA Secretariat in December for final comments. Comments were received from the PEFA Secretariat on January 15, 2015 and are addressed in this final report, with the responses to comments attached in Appendix G. The final report will be posted on the MoFED website and linked to the PEFA website.

1.4 Donor Harmonization

The donor agencies concerned with PFM in Ethiopia are the World Bank/IDA, DFID-UK, ADB, EU, USAID, Irish Aid, the UN Group and others, who have set up a PFM Donor Group, currently co-chaired by DFID and the World Bank. The Group was fully involved in the arrangements for the 2014 PEFA assessments, starting with the Concept Note and agreement on funding. The assessments are being funded jointly by DFID, USAID, Irish Aid and the World Bank, with the World Bank managing the process. A first meeting was held between the Donor Group and the Assessment Team on February 11, and progress review meetings on February 28 and October 14, 2014.

Donor agency inputs were solicited during the fieldwork, both for the scoring of the donor indicators (D-1 to 3) and for their perceptions on financial management performance over the past four years and possible future directions. Donors were asked to comment on the draft final report.

1.5 Quality Assurance

A robust quality assurance has been put in place through the PEFA Secretariat PEFA CHECK system and through the World Bank peer review process. The criteria required for the PEFA Secretariat to issue the “PEFA CHECK” were followed.

The World Bank process included a Decision Meeting on the Concept Note, which was chaired by the Country Director. The World Bank peer reviewers were: (1) Nicola Smithers, PFM Cluster Leader, PREM Public Sector Anchor, World Bank Washington DC; (2) Gert Van der Linde, Lead PFM Specialist, South Africa Country Office; (3) Sanjay Vani, Lead FM Specialist, OPCS, World Bank, Washington DC; and (4) Manoj Jain, Lead FMS and FM Cluster Leader, South Asia Region, World Bank New Delhi.

The Government PFM Team in MoFED were consulted at every stage of the process to ensure that the reports are of the required quality and to take ownership of the process and the outputs. In addition, the draft report was circulated to the PFM Donor Group and their inputs sought before the report was finalized.

1.6 Structure of the Report

Chapter 2 briefly describes the context of the AACG, the structure of the public sector and of public sector operations, and the legal and institutional framework for PFM. Chapter 3 presents the evaluation of City PFM systems, processes and institutions based on the 32 high-level indicators of the PEFA performance framework at sub-national level. Chapter 4 describes recent and on-going reforms and main areas of intervention.

2. Country Background Information

2.1 Economic Context, Development and Reforms

Addis Ababa was founded in 1887 by Emperor Menelik II and became the national capital in 1889. The city is located at the geographic center of the nation, in the mountainous Shewa Province. At 2,100-3,000 meters altitude, it is the third highest capital city in the world, with a sub-tropical highland climate and is the political and cultural center of Ethiopia. The African Union and Economic Commission for Africa are based in Addis Ababa. Today (FY 2014) with a total land area of 540 km² and an estimated population of 3,550,000, Addis Ababa is the largest city in Ethiopia, accounting for 4.3 percent of the national population.

Significant achievements have been made in Addis Ababa in the education and the health sectors in recent years. At present, the number of primary schools stands at 768, and secondary schools at 76. The gross enrolment ratio at August 2012 was 115 percent (number enrolled/number in the 6-11 age group) in primary schools and 92 percent in secondary schools (number enrolled/number in the 12-17 age group). Female participation is high (53.4 percent in primary schools and 53.0 percent in secondary schools). For the health sector, most health clinics are privately owned. At August 2012 there were 53 government health centers, six hospitals and two health posts. The infant mortality projection for FY 2010-15 is 39 per 1000 live births, while under-five year mortality is 50 per 1000 live births. Access to safe water stood at 95 percent in FY 2008/09, and life expectancy is currently 67 years.

The projection for GDP at market prices for FY 2012/13 is ETB 59,085 million (US\$871 per capita), with a growth rate of 7.7 percent over FY 2011/12³. Unemployment has been reduced, but was still estimated at 25.1 percent of the labor force at August 2012, while 26.1 percent of the residents experience food poverty.

The development goals and objectives of the City emphasize the generation of employment opportunities by promoting private investment and the growth of micro- and small-scale enterprises, the construction of residential housing, improvement of waste management and reduction of HIV/AIDS.⁴

2.2 Budgetary Outcomes

Table 2.1 below shows that for the last three years, the City Government, without Federal subsidy (apart from a small allocation from the Road Fund) and with insignificant external assistance, has been making a surplus of revenue over expenditure. The surplus was reduced to ETB 390 million in 2012/13, just 3 percent of total revenue. The surplus over three years has gone mainly into repayment of domestic loans and an increase in the cash balance.

Table 2.1 Budget Outcomes FY 2010/11 – 2012/13

	2010/11	2011/12	2012/13
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³ Based on data from the Policy Studies and Analysis Department, city BoFED. The base year is FY 2006/07 and the latest actual data are for FY 2010/11.

⁴ Sources: City BoFED (FY 2013) *Socio-Economic Profile of Addis Ababa*, BoFED/Population Affairs Coordination Sub-Process (2009) *Addis Ababa Population Images*, Addis Ababa City Bureau of Education, EFY 2004 Annual Report, interviews with the Bureau of Education and the Bureau of Health.

	% of GDP	% of GDP	% of GDP
Total Revenue	30.8%	38.6%	46.6%
Own revenue	30.4%	38.4%	46.3%
Grant from Road Fund	0.2%	0.2%	0.2%
External grants	0.3%	0.1%	0.2%
Total Expenditure	24.6%	33.2%	45.2%
Non-interest recurrent exp.	10.4%	17.6%	20.6%
Capital expenditure	14.1%	15.7%	24.6%
Interest expenditure	0.0%	-	-
Aggregate Surplus (incl. grants)	6.3%	5.4%	1.4%
Financing Items	0.3%	0.3%	1.3%
External loan (net of repayments)			
Domestic	-6.6%	-5.7%	-2.7%
Domestic borrowing repayment	-2.6%	-	-0.1%
Increase in payables	-7.6%	-3.6%	4.0%
Decrease in receivables	3.4%	2.9%	-5.2%
Increase in cash	-0.6%	-5.8%	-1.0%
Other non-cash movements	0.9%	0.8%	-0.5%
GDP (ETB millions)	22,701	25,040	27,619

Source: BoFED Accounts - Cash Flow Statements. Repayment of domestic borrowing has been taken out of expenditure and reclassified under financing. Other non-cash movements are partly due to removal of the City Housing Development Project Office (Bond Accounts) from the City Government accounts, and opening balances each year not agreed with previous closing balances. There are small differences on rounding.

Table 2.2 Actual Budgetary Allocations by Economic Classification (as % of total expenditure)

	FY 2010/11 (EFY 2003)	FY 2011/12 (EFY 2004)	FY 2012/13 (EFY 2005)
Current expenditure	48.0	52.9	45.7
Wages and salaries	24.5	24.5	20.9
Goods and services	14.9	17.4	15.3
Interest	-	-	-
Subsidies, investments, contingency, etc	8.7	11.0	9.5
Capital expenditure	52.0	47.1	54.4

Source: BoFED Accounts – Total expenditure (all sources) by object code. Debt repayment (code 6431 and 6433) has been omitted as this is not expenditure under GFS classification.

2.3 Legal and Institutional Framework

Legal framework

Under the 1994 Constitution, the city of Addis Ababa has complete powers of self-administration. Particulars are determined by Federal Proclamation No. 361/2003, the Addis Ababa City Government Revised Charter Proclamation, which replaced the Charter Proclamation No. 87/1997. The working language of the City Government is Amharic. The Revised Charter establishes the objectives, organization, powers and functions of the City Government and of all its organs. The City Council has the power to make laws and exercise judicial and executive powers over matters not specifically included in the powers of the Federal Government. It has legal personality and can

establish relations and make agreements with the Federal Government, Regions, private sector, NGOs and (with Federal authorization) international organizations. The City Council is accountable to the Federal Government and to the residents of the City. Its powers and functions are listed in the Revised Charter, Sections 11 and 13.

The City Government has the authority to assess and collect income and profits taxes, land use fees, VAT, fees for municipal services, etc. The assessment and collection of direct and indirect taxes is contracted out to the Ethiopia Revenue and Customs Authority (ERCA). It can borrow from domestic and external sources with Federal authorization. External borrowings are done through the Federal Government (Revised Charter, section 11 (2) k).

In FY 2011 the City Cabinet issued Addis Ababa City Government Financial Administration Regulations No. 39/2011. This requires the BOFED to prepare an annual budget in accordance with the plan and a rolling macro-economic fiscal framework (MEFF). BoFED also prepares a consolidated budget for the sub-cities and an allocation of a block subsidy according to formula. The City Government may also allocate budgets for capital expenditure in particular cases. Budgets should include estimates of all expected aid, including the monetary value of aid in kind. Section 9 of the Regulations covers transfers between budgets. Other sections cover payments, custody of cash, setting of fees and charges, collection and deposit of public money, advances, write-offs, borrowing and public debt, issue of guarantees, sinking funds, financial reporting, audit (internal and external), investigations and disciplinary actions.

Other proclamations cover revenue (see PI-13), procurement (PI-19) and audit (PI-26).

Institutional framework

The City Council is elected by residents of the City for a term of five years and is the main organ of power. Other City organs are the Mayor, the City Cabinet, the City Courts, and the Office of the City Auditor General. The Mayor is also elected for five years. S/he is the chief executive officer of the City and is accountable to the City Council and to the Federal Government. The Mayor nominates persons for appointment to a City Cabinet, which advises the Mayor on policies, development plans and budgets before they are proposed to the Council. The Council approves the budget and levies taxes and duties and sets service charges.

The present staff, including sub-cities and woredas, number around 62,000. The Mayor hires a City Manager in consultation with the Cabinet to manage municipal services, such as water and sewerage, road construction, fire and emergency service, civil status records, land development and management, city sanitation and beautification. There are six city enterprises: Addis Water and Sewerage Authority (AAWSA), City Bus Company (Anbessa), City Pharmacies, Slaughter Houses, City Cinemas, and Government Houses Development Project Office (HDPO). Anbessa is a loss-making public enterprise and receives an annual subsidy from the City Treasury: the others are said to be self-financing (the Assessment Team has not seen their financial statements). Although AAWSA is a loss-making public enterprise, it falls entirely within the city budget and financial statements (IBEX system). Administration expenditure for HDPO is also within the city budget and accounts, but its capital expenditure and borrowing are separately budgeted and accounted, with accountability to the Mayor's office. The other enterprises are also outside the city budget and accounts. Under the UN/IMF sectoral classification (GFSM 2001), they are all non-financial public corporations, and are therefore outside the boundary of general government (see also PI-9 (i)).

There are several autonomous government agencies (non-profit bodies under City ownership and

supervision, carrying out government functions), including the Addis Ababa City Roads Authority (AACRA), Construction Industry Development and Control Authority, Land Development City Renewal Agency, Addis Ababa City Courts, Kebele Social Courts, Tax Appeal Commission, Labor Relations Board, Civil Service Tribunal, Urban Land Clearance Matters Appeal Commission, Kotebe Teacher College, etc. These are all within the city budget and accounting system (see PI-7 (i)).

BoFED is the main institution for budget preparation and execution (including treasury, internal audit and control functions). It consists of seventeen departments, called core processes (three), sub-processes (seven) and support processes (seven) (see organization chart at Appendix 4). The City Council approves the draft budget and the annual financial accounts. The Bureau of the City Auditor General is in charge of external audit of city entities as well as of sub-cities, woredas and city enterprises.

Key features of the City PFM system

Although sub-cities and woredas are elected bodies, have legal personality, contract in their own name, and maintain their own budgets and accounts, fiscally they are decentralized units of the City Government. The city budget, monthly accounts and annual accounts consolidate all their revenues and expenditures from the IBEX computer system, which produces monthly reports on each of the budgetary institutions (58 BIs at city level, 10 sub-cities and 116 woredas). Payments are made by each BI on a zero-balance bank account that is reimbursed at the end of each day from the City Treasury. Revenue accounts are kept by revenue-receiving BIs and these are also cleared daily to the City Treasury. Payroll and procurement operations are decentralized to the BIs, and they have their own internal audit units. All are closely supervised by BoFED.

Block grants (untied) are made to the ten sub-cities monthly in accordance with the city budget, which is prepared according to a revenue sharing and block allocation formula based on principles of equity and encouragement of competition. The sub-cities allocate the grants to their woredas, retaining a portion for their own executive offices. The sub-cities have their own formulae for horizontal distribution to the woredas, and these are not controlled by the city administration. There are also specific grants for capital projects (see PI-8).

3. Assessment of PFM Systems, Processes and Institutions

This chapter briefly explains each of the 32 indicators, the situation at the time of the assessment, how this relates to the PEFA Framework and its requirements for scores of A, B, C or D, and the scores assessed.

Where an indicator has more than one dimension, the dimensional scores are combined by one of two methods. Method 1 (M1) is used when poor performance on one dimension is likely to undermine the impact of good performance on other dimensions, so the overall score is determined by the score of this weakest link. A plus sign is added when any of the other dimensions is scored higher than the weakest link. For indicators in which a low score on one dimension does not necessarily undermine the impact of higher scores on other dimensions, the dimensional scores are averaged (M2 method). The average of all possible combinations of scores is provided in a table in the PEFA Framework (www.pefa.org).

The method of combining scores (M1 or M2) is shown in the summary box of each multi-dimensional indicator.

3.1 Budget Credibility

HLG-1 Predictability of Transfers from Higher Levels of Government

The City Government does not receive an allocation from the MoFED block grant to regions. It receives only a distribution from the Road Fund, which is earmarked for the City Road Authority for road and drainage construction and maintenance. The annual transfer is the result of negotiations with the Road Fund and is disbursed monthly. The amounts budgeted and received over the past three years are as follows:

Table 3.1 Transfers from the Federal Government to the City Government of Addis Ababa (ETB millions)

	FY 2010/11 (EFY 2003)	FY 2011/12 (EFY 2004)	FY 2012/13 (2005)
Road Fund – Budget	45.0	62.6	50.4
- Actual	41.6	38.0	47.0
Shortfall %	7.6%	39.3%	6.7%

(i) *Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the subnational entity for inclusion in the latter's budget*

Table 3.1 above shows that there was a shortfall of more than 10 percent in total transfers only in FY 2011/12, for which a score of B is assigned.

(ii) *Annual variance between actual and estimated transfers of earmarked grants*

The transfers are all earmarked; therefore the same table applies for this dimension. The scoring table, however, is different from dimension (i). A shortfall of earmarked transfers of more than 10 percent in one year out of three scores a C.

(iii) *In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the subnational fiscal year)*

There is no pre-agreed disbursement timetable, but actual transfers have been distributed evenly over the year in all of the past three years. This qualifies for a score of A.

Table 3.2 HLG-1 Results

PI	Score 2010	Score 2014	Justification	Performance change
HLG-1	D	C+	M1	
(i)	D	B	In only one year the shortfall in total transfers exceeded 10% of budget	Improvement in estimation
(ii)	D	C	In only one year the shortfall in earmarked transfers exceeded 10% of budget	Improvement in estimation
(iii)	D	A	Actual transfers have been distributed evenly across the year in all of the past three years.	Improvement in timeliness of transfers

PI-1 Aggregate expenditure outturn compared to original approved budget

The City Accounts show that total primary expenditure (recurrent and capital, excluding externally funded project expenditure) was consistently below budget over the past three years (see Appendix 5). Table 3.3 below shows the percentage of under-expenditure, and the corresponding under-collection (or over-estimation) of revenue. In effect, expenditure was constrained by capacity limitations and revenue was adequate to meet the reduced expenditure (see also Table 2.1 on budgetary outcomes).

Table 3.3 Expenditure Out-turns compared with Revenue Out-turns

	Variance of expenditure/budget	Variance of revenue/budget
2010/11 (EFY 2003)	-27.3%	-23.6%
2011/12 (EFY 2004)	-28.8%	-16.3%
2012/13 (EFY 2005)	-21.8%	-18.8%

Table 3.4 PI-1 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-1	D	D	Actual expenditure deviated more than 15% from budget in all the past three years	No change

PI-2 Composition of expenditure outturn compared to original approved budget

When the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level. In the City Government budget and accounts, there is an administrative classification, with organizations classified into four broad functional groups: administrative and general, economic, social, and

other; then into 22 sub-functional heads (see PI-5). Appendix 5 shows the original budgets and actual out-turns for each of these heads.

The method of assessing this indicator changed in FY 2011. Allowance is now made for any change in the total resource envelope, which is equal to the total actual expenditure. Budgets are adjusted by the ratio of the actual resource envelope to the budgeted resource envelope.⁵ Variances are then measured against these adjusted budgets. It should be made clear that the term ‘adjusted budget’ is a PEFA term, and has no reference to City Council budgets adjusted for supplementaries budget, which may be quite different.

(i) Extent of the variance in expenditure composition during the past three years

Appendix 5 shows that there was high variance in each of the past three years, amounting to 32.7 percent, 28.7 percent and 44.4 percent respectively. This is slightly less than in the 2010 assessment, but not enough to change the score. An analysis of the variance shows that in FY 2010/11 (EFY 2003), variance was mainly due to under-expenditure on Municipal Administration and General (code 510) and over-expenditure on the subsidy to the bus service (400). In 2011/12 (EFY 2004), it was mainly due to under-expenditure again on Municipal Administration and General, also Natural Resources (code 220) and Construction (270), and over-expenditure on Organs of State (110). In FY 2012/13 (EFY 2005), it was due to massive over-expenditure on Construction (270) and under-expenditure on most other BIs.

The assessment in FY 2010 has been re-worked according to the new method, so that a comparison can be made with FY 2014. Appendix 5 shows that in 2010 the score would have been D, rather than C. There is no real change.

(ii) The average amount of expenditure actually charged to the contingency vote over the past three years

A second change made in 2011 was the separation of the contingency budget and actual contingency expenditure, which is the subject of a new dimension (ii). It is good practice to charge contingency expenditure to the benefiting heads, and to transfer the budget to the benefiting heads, which was done. Although a relatively high allocation was made to the contingency budget (averaging 5.9 percent of total budget in the past three years), BoFED has authorized many transfers to other codes, and expenditures have been charged to those codes, with nothing against the contingency code.

Table 3.5 PI-2 Results

PI	Score 2010	2010 score under new method	Score 2014	Justification	Performance change
PI-2	C	D+	D+	M1	
(i)	C	D	D	Variance has exceeded 15% in all three years	No change
(ii)	NA	A	A	Actual expenditure charged to the contingency budget has been nil in the past three years	No change

⁵ Based on the principle that the original budget was an optimal budget in which expenditure on all heads had equal marginal benefits.

PI-3 Aggregate revenue outturn compared to original approved budget

Revenue is estimated each year by BoFED Planning Department in collaboration with the sub-cities and with ERCA. The revenue budget is finalized and submitted to the Council.

Revenue has been consistently over-estimated (see Table 3.6 below, based on the data for FYs 2010/11 to 2012/13 in Appendix 6).

Table 3.6 Analysis of Revenue Variance FY 2010/11-2012/13 (EFY 2003-2005)

Revenue Item	Total budget for 3 years	Total actual for 3 years	Budget as % of Actual
	ETB millions	ETB millions	
TOTAL	36,149.50	29,286.46	81.0%
Tax Revenue	19,539.45	22,599.98	115.7%
Tax on Income, Profit and Capital Gain	12,767.31	14,164.54	110.9%
Value Added Tax	398.06	1,117.78	280.8%
Value Added Tax on Services	4,640.01	5,945.57	128.1%
Excise, Sales & Service Taxes on Locally Manufactured Goods & Turnover Tax	1,467.96	1,065.47	72.6%
Stamp Sales and Duty	266.12	306.61	115.2%
Non-Tax Revenue	12,370.61	3,265.68	26.4%
Administrative Fees and Charges	549.74	140.69	25.6%
Sales of Public Goods and Services	1,582.74	224.66	14.2%
Government Investment Income	9,347.93	2,067.07	22.1%
Miscellaneous Revenue	890.20	831.52	93.4%
Capital Revenue	-	1.74	-
Municipality Revenue	4,239.44	3,420.81	80.7%
Municipality Tax Revenue	815.65	580.66	71.2%
Sale of Goods and City Services	1,886.02	1,918.27	101.7%
Other Municipal Revenues	1,537.76	921.88	59.9%

While tax revenue exceeded budget by 15.7 percent over the past three years, non-tax revenue has fallen short of budget by 73.6 percent, largely because of gross over-estimation of government investment income every year (Urban Land Lease Fees Code 1469) and sales of goods and services. Municipal revenues are also over-estimated by about 20 percent. The over-estimation of revenue allows BoFED to correspondingly over-estimate expenditure without regard to capacity constraints. When the over-estimates are approved by the Council, the Executive has discretion to re-allocate resources during the year within this higher ceiling. The Assessment Team was informed that Proclamation 721/2011 established a Land Management and Administration Bureau to assess and collect land lease fees, but their estimates are still very optimistic and are not discounted by BoFED.⁶

⁶ Over-budgeting of non-tax revenue continued in 2013/14. Overall domestic revenue collections were 86.2 percent of budget.

The method of scoring PI-3 was changed in 2011. Since then, over-collections are also penalized, although not as much as under-collections. However, this makes no difference to the score for 2010, which would still be D under the new method.

Table 3.7 PI-3 Results

PI	Score 2010	2010 score under new method	Score 2014	Justification	Performance change
PI-3	D	D	D	Actual revenue was below 92% of budget in all three years	The degree of over-estimation of revenue is less than in EFY 2006/07-2008/09, down from 59% to 19%, but there is no change in score.

PI-4 Stock and monitoring of expenditure payment arrears

(i) Stock of expenditure payment arrears

The City Government of Addis Ababa, like the Federal Government, has a system for retaining cash for payments of capital expenditure liabilities so as to avoid squeezing the following year's budget. Liabilities on capital projects are called 'Grace Period Payables' (GPPs) and BIs obtain BoFED authorization to retain cash to pay them within 30 days of the end of the financial year, that is by August 6. Unlike the Federal Government, if GPPs are not paid within 30 days, BIs do not transfer the unspent cash back to BoFED. Hence, GPPs may remain unpaid, becoming true arrears. As shown in Table 3.8, 24 percent of the GPPs (ETB 209 million) at July 7, 2013 were not paid in the following month and 22 percent (ETB 188.6 million) were still outstanding eleven months from the end of the fiscal year.

GPPs outstanding one month after the end of 2012/13 were 1.7 percent of expenditure for that year, down from 2.3 percent the previous year, and still stood at 1.5 percent at the end of the eleventh month.

Table 3.8 Grace Period Payables (ETB millions)

	2010/11	2011/12	2012/13
Total expenditures (Appendix 5)	6058	8218	12353
Grace period payables at end of year (July 7)	583	457	860
As % of total expenditures	9.6	5.6	7.0
Balance as of August 6 (a month after the end of the fiscal year)	140	185.7	209
As % of total expenditures	2.3	2.3	1.7
Balance as of June 7 (11 months from the end of the fiscal year)	97.8	126.9	188.6
As % of total expenditure	1.6	1.5	1.5

Source: BoFED

There is no similar arrangement on *recurrent* payables. However all salaries are paid within the month by law and most purchases of recurrent goods and services are on cash terms. It is not believed that there are any significant recurrent expenditure arrears.

Sundry creditors and other payables are not analyzed by age by BoFED. Some BIs do an age analysis, but not all, so there is no consolidation and the Assessment Team was not able to get an age analysis of these codes. The conversion from IBEX to IFMIS may solve this problem.

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

Data on the stock of arrears is generated annually, but does not include an age profile.

Table 3.9 PI-4 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-4	A	B+	M1	No change: Dimension (ii) in the 2010 assessment was over-scored.
(i)	A	A	The stock of arrears was less than 2% of total expenditure	No change
(ii)	A	B	The annual accounts show payables in detail, but they are not analyzed by age	The previous assessment did not take into account the lack of an age profile

3.2 Comprehensiveness and Transparency

PI-5 Classification of the budget

This refers to the classification system used for formulation, execution and reporting of the central government budget. The same chart of accounts is used for formulating the budget and for reporting during the year and for the annual financial statements at all levels of government. The assessment of this indicator is therefore the same as for the Federal Government.

Revenue is classified according to the international GFS standard (tax revenue, non-tax revenue and capital revenue), although with three exceptions: (1) privatization proceeds (sale of equity (SOE)) are treated as capital revenue, rather than a financing item; (2) repayments of principal on loans made by the GOE (Code 1505) are also treated as capital revenue, rather than a financing item; (3) external assistance (donor grants) are treated as a financing item, rather than revenue.

The expenditure budget is broken into five parts: (1) recurrent; (2) capital expenditure from Treasury revenue; (3) capital from external assistance (grants); (4) capital from donor loans; and (5) expenditure from the Road Fund transfer to the City Road Authority. There is also an administrative classification, with organizations classified into four broad functional groups: administrative and general, economic, social, and other. These groups are then classified into 22 sub-functions, which broadly aligned with the international COFOG classification at the *main* function level (10 main functions, three-digit level), but not the sub-functions (four-digit level). At present, program budgeting has not been introduced into city planning and budgeting. When this is done, it should be possible to classify programs to COFOG sub-functions.

The budget and accounts also use two further classifications, although the printed budget does not present this detail: (1) *area of expenditure* (personnel = 61, goods and services = 62, fixed assets and construction = 63 and other payments = 64. The latter includes grants and subsidies, investments, debt service, contingency and pension payments); and (2) *line items*, which analyze areas of expenditure in more detail, e.g., salaries to permanent staff are coded 6111. These two classifications constitute an economic classification that is broadly compliant with the IMF-GFS classification, except that public debt principal repayments are treated as expenditure rather than

negative financing.⁷ Repayments of tax revenue other than VAT are misclassified as expenditure, rather than being offset against the respective revenue items as prescribed by the IMF-GFS (GFSM 2001), but the amount is insignificant.

All expenditure is classified by jurisdiction (i.e., region, city administration, zone and woreda) and source of finance.

Table 3.10 PI-5 Results

PI	Score in 2010	Score in 2014	Justification for Score	Performance change
PI-5	B	B	Budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.	No change

PI-6 Comprehensiveness of information included in 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.

This indicator is assessed on the latest budget documentation, which is for FY 2013/14 (EFY 2006). The budget documentation as submitted to the City Council (MTEF, grant allocation and budget estimates) includes:

Table 3.11 Information in Budget Documentation for FY 2013/14

Requirement	Fulfilled	Explanation
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the very least.	Yes	These data are in the MTEF for EFY 2006 (2013/14), section 4. The MTEF is prepared by BoFED, cleared with Cabinet and copied to all Councilors on behalf of the Mayor in April.
2. Fiscal deficit.	Not applicable	The City is legally required to present a balanced budget
3. Deficit financing	Not applicable	Ditto
4. Public debt stock	No	The City has domestic debt, but it is not shown in budget documentation
5. Financial assets	No	“Financial assets” includes cash on hand, cash at bank, receivables of all kinds (including advances to suppliers, contractors, staff, and other receivables). Not shown.

⁷ It appears that highly concessionary loans in the past have been treated as grants and categorized as revenue; therefore their repayment would be treated as expenditure. Neither treatment complies with IMF-GFS standard.

Requirement	Fulfilled	Explanation
6. Prior year's budget outturn (2011/12), in the same format as the budget for 2013/14	No	The budget document shows five years summary of revenue and expenditure (from FY s 2007/08 to 2011/12) and 11 months performance of FY 2012/13. But the report is not in the same format as the budget for FY 2013/14
7. Current year's budget outturn (2012/13), in the same format as the budget for 2013/14	Yes	The budget document shows a summary of revenue and expenditure for 11 months performance in the current year, in the same format as the budget for 2013/14 at the level of city and sub-city BIs.
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	Five years summary of revenue and expenditure (EFY 2000 – 2004) and 11 months performance for EFY 2005.
9. Explanation of the budget implications of new policy initiatives. ⁸	No	There is no disclosure of the revenue or expenditure impacts of new policies

Table 3.12 PI-6 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-6	D	B	Three of the seven applicable benchmarks are met	Improvement, as none of the benchmarks were reported to have been met in FY 2010

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 project expenditures financed by donors) that does not appear in fiscal reports.

The budget and accounts, both in-year and annual, include many autonomous bodies, which are listed in each year's accounts. According to BoFED there are no autonomous bodies omitted from the accounts. Public enterprises are excluded from the budget and accounts.⁹

Hospitals, health centers, the Water and Sewerage Authority, theater houses, colleges, the Professional Capacity and Evaluation Center and Gulele Botanical Garden are allowed to retain their revenues and spend them within the limits of their budgetary appropriations but must record the amounts and report monthly to BoFED. No unreported receipts or expenditures have been

⁸ GTP was introduced two years ago and its implication for the budget was addressed along with other issues including MDG priorities for FY 2013/14.

⁹ There are no 'Whole of City Government' accounts, including all public enterprises controlled by the City Government, as required by the IPSAS standard. (Note that this standard has not been achieved by the Federal Government nor most developed countries either).

identified.

Unreported expenditure as a percentage of total City Government expenditure was therefore nil.

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

The chart of accounts differentiates between external assistance (grants, Codes 2000-2999) and external loans (Codes 3000-3999). Contributions from the Road Fund are included under Domestic Revenue. External assistance and loans are also classified by donor. The City Roads Authority, whose accounts are included in the City IBEX system, has recently negotiated loans from the Chinese Exim Bank (\$60 million) and from the French Development Fund (EUR 20 million). It is not yet clear how these will be accounted, whether within the City Accounts or the federal accounts. The Water and Sewerage Authority, whose accounts are also within the City Accounts, has a loan from IDA, which falls under the City Accounts. The city share (40 percent) of the Urban Local Government Development Program is included in the budget (ETB 700m in 2012/13) and accounts. Reported receipts from donors are shown under D-2 below.

There is said to be some donor expenditure through Channel 3, i.e., direct to implementing agencies without MoFED or BoFED being informed. However, the amount is unknown and it is not included in the city budget or financial statements.

According to BoFED NGO Department, there are 364 NGOs operating in Addis Ababa City (303 local and 61 international NGOs), responsible for about 370 projects and 5.4 million targeted beneficiaries. Hence, their social and developmental activities should be taken into account in sectoral planning and monitoring. Proclamation 621/2001 Article 88 requires that NGOs submit quarterly reports and annual audited reports to BoFED, but compliance is incomplete. Complete information is received only on the termination of projects.¹⁰ The budgets of all projects for FY 2012/13 add up to ETB 2,926 million, which is about 18 percent of the city budget that year. Their budgets and accounts are not included in the city budget or accounts.

Accounting for these NGOs is problematic. Since they can operate only by agreement with the City Government (projects over ETB 2 million) or with the sub-city (below ETB 2 million), and are supervised by government, their projects appear to be government projects funded by donors (rather than private sector charities). If so, NGO sources of funds are unreported grants and NGO expenditure is unreported expenditure of the government. However, there are major gaps in the flow of reliable information. For the purpose of this PEFA assessment, NGOs have been omitted from consideration.

Table 3.13 PI-7 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-7	NS	C+	M1	
(i)	A	A	No unreported expenditure identified	No change
(ii)	NR	C	Information on loan financed projects is included in fiscal reports, but not grant-financed projects	No comparison is possible

¹⁰ In FY 2013/14, 70 projects terminated. Their total expenditure was ETB 404.7million

PI-8 Transparency of Inter-Government Fiscal Relations

The federal system of government in Ethiopia gives substantial political, administrative and fiscal powers and autonomy to sub-national governments. Among the nine regional states are two City Administrations one of which is Addis Ababa. Addis Ababa City has ten sub-cities and 116 woredas (districts), which are the main units of the city government (see Chapter 2.3 above on the legal and institutional framework). The sub-cities decide how to spend their revenue for providing the mandated services. Based on the principles of fiscal federalism, transfers are made from the City to the sub-cities and then to the woredas through a system of un-earmarked block grants and earmarked grants for approved capital projects. The budget for 2013/14 (EFY 2006) included ETB 3733.5 million for block grants (69 percent of total) and ETB 1,693.2 million for specific grants (31 percent of total). Sub-cities obtain almost all of their financial resources from these transfers. The sub-cities decide how to allocate and use the block grants in their jurisdictions, and the woredas have the same discretionary power. The grant is disbursed in monthly installments by the BoFED Treasury. It can be used in any sector and for capital or recurrent expenditure, as each sub-city council determines.

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

As stated above, the City Government of Addis Ababa does not receive a block grant from the Federal Government, but provides grants to its 10 sub-cities and to the 116 woredas via the sub-cities from its own revenues. The City Council allocates funds to the sub-cities using a complicated but objective formula involving data on the following:

- a) the number of schools and students;
- b) the number of health posts and patients;
- c) the number of police personnel;
- d) the number and distance of disposal sites for solid waste;
- e) capacity for raising revenue;
- f) the size of the sub-city.

Data are provided by each sub-city to BoFED from September onward and negotiations continue until March. This does not appear transparent, but there are no complaints.

Table 3.14 below shows the allocations for the EFY 2004 (FY 2011/12).

Table 3.14 Subsidy Distribution in FY 2011/12 (EFY 2004)

	Name of Sub-City	Millions of Birr
1	Arada	173.1
2	Addis Ketema	194.5
3	Lideta	195.3
4	Kirkose	214.5
5	Yeka	207.9

6	Bole	212.6
7	Akaki-Kality	207.9
8	Nefas Silk Lafto	212.1
9	Kolfe Keranieo	234.7
10	Gulele	196.4
	Total	2,049.1

The Assessment Team visited Bole Sub-City Office of Finance and Economic Development (OFED) to see whether the amount of subsidy could be reliably predicted and whether notification is provided with sufficient time to prepare the sub-city budget. This information is needed by the end of March, before the budget for the sub-city and the 14 woredas under them is prepared. According to the sub-city officials, the process is reliable, clear and transparent. As of March 20, 2014, however, the OFED did not know the amount of subsidy for FY 2014/15 (EFY 2007). It appears that they do not calculate the subsidy themselves from the data they provided, or would rather leave this task to BoFED.

The revenue-sharing process is transparent and is based on the Federal Tax Laws. The division of taxes and revenues between the Federal Government and the City Government, as prescribed in the Revised City Charter, Article 52, is summarized in Table 3.15 below.

Table 3.15 Sources of Revenue and Sharing

City Government Revenues	<ul style="list-style-type: none"> • Taxes on income earned while in the employ of the City, with the exception of employees of Oromia Region, the Federal Government organs, including Federal public enterprises • Land Use Fees in the City • Taxes on income from agricultural activities in the City • Profit taxes, excise taxes, and turnover taxes from individual tradesmen in the city. • VAT from individual tradesmen and public enterprises in the city • Rents/lease prices of land and housing taxes in the city • Rental incomes on City Government houses and properties in the city • All taxes on City Government enterprises • Road user charges in the city • Income taxes, royalties and land lease rents from mining operations in the city • Licenses and service delivery fees in the city • Municipal taxes and duties as well as service charges in the city • Income taxes from rentals of patent rights in the city • Royalties on the use of forest resources in the city • Property capital gains tax in the city
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(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.*

Notification of annual budget subsidy of the City Government of Addis Ababa to the 10 sub-cities takes place at the end of March, before the sub-cities issue their Budget Call. This was confirmed by Bole Sub-City OFED. Addis Ababa City Government (AACG) does not receive any subsidy from GoE, so it is not affected by any changes made by MoFED at the end of the budget preparation process to the amounts of block grants provided to regional governments at the start of the process.

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

Sub-cities report monthly to BoFED directly from the IBEX system and consolidation of monthly data is performed yearly. Reports follow the standard chart of accounts used throughout all levels of government, including the sectoral classification. This data is consolidated into City Government reports by the accounts department, classified by function, program and accounts code. The latest year consolidated is 2012/13 (EFY 2005), which was submitted for audit in October 2013.

Table 3.16 PI-8 Results

PI	Score 2010	Score 2014	Justification	Performance change
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PI-8	A	A	M2	
(i)	A	B	In the current year's budget, 69% of the total grants are unearmarked and allocated based on a formula. The rest are specific project grants, which are individually negotiated.	No change. The 2010 PEFA provided very little evidence, but the situation has changed little since then.
(ii)	A	A	Sub-cities receive reliable information on their allocations before the start of their detailed budget process	No change
(iii)	A	A	Fiscal data is collected from all sub-cities and consolidated into annual reports within 10 months of the end of the fiscal year.	No change

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

(i) *Extent of central government monitoring of Autonomous Government Agencies (AGA) and Public Enterprises (PE)*

Autonomous government agencies are monitored through the integrated budget and expenditure system (IBEX). Public enterprises are monitored by their Boards, which include representatives of the Mayor's office, and are accountable to the City Manager. They do not copy their reports to BoFED, and the Assessment Team was not able to review them.

At present, there are seven non-financial PEs owned by the City Government and two non-financial PEs within (or partly within) the City Accounts (AAWSA and HDPO) (see chapter 2.3). There is no regular consolidation of their reports or of fiscal risks arising from their operations.

(ii) *Extent of central government monitoring of sub-national government's fiscal position*

Sub-cities and woredas have balanced budgets and do not generate deficits. They are not allowed to borrow, and their payables are monitored by BoFED.

Table 3.17 PI-9 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-9	C+	C+	M1	
(i)	C	C	PEs submit fiscal reports to the City Mayor or City Manager at least annually, but a consolidated overview of fiscal risk is missing	No change
(ii)	A	A	Sub-cities and woredas cannot generate fiscal liabilities	No change

PI-10 Public access to key fiscal information

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

Table 3.18 Required Elements of Information to which the Public has Access

Information benchmark	Full compliance?
(1) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes. The draft budget is published and available on the BoFED website (www.aabofed.gov.et). When approved, it is replaced by the approved budget. This is also posted on notice boards in sub-cities and woredas.
(2) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Yes. Budget execution reports are posted quarterly on sub-city and woreda notice boards within one month of their completion
(3) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Yes. Annual financial reports are posted in the BoFED website and on notice boards within six months of completed audit
(4) 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 are posted on the BoFED website within six months of completed audit. The latest is for 2012/13, which was issued to Parliament July 7, 2014.
(5) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. is published at least quarterly through appropriate means.	No. Contract awards are not yet routinely posted on any website or otherwise made available to the public.
(6) 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).	Yes The budgets and expenditures of primary schools and health centers are posted on their notice boards at woreda level.

Table 3.19 PI-10 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-10	B	A	The Government makes available to the public five of the six elements of information.	There has been a significant improvement in public access to fiscal information through the Financial Accountability and Transparency Project (FATP) and disclosure of annual budget documentation and external audit reports.

3.3 Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

Budget preparation is in accordance with the Addis Ababa Government Budget Administration Manual Proclamation no. 3/2003, which is closely aligned to the Federal Proclamation. The City Budget Department follows the Federal budget calendar. A rolling three year macro-economic and fiscal framework (MEFF) and medium term expenditure framework (MTEF) are prepared by BoFED (City Government Financial Administration Regulations no. 39/2011), based on: a review of revenue and expenditure over the previous three years, GDP projection by BoFED, CSA projection of inflation, data from the Addis Land Bureau, Road Fund, external assistance estimates (from MoFED by January) etc. It is finalized by the end of March.

The budget is prepared consultatively, with major inputs from the Council Finance and Economic Development Committee (FEDC) and the public (see also under PI-27). Five hundred city dwellers are invited to debate for an entire day the budget proposed by BoFED, and changes are agreed. The City Cabinet reviews the budget, which is approved by the Council normally by the end of the fiscal year (July 7).

(i) *Existence of and adherence to a fixed budget calendar*

BoFED aims to comply with the federal budget calendar. The Budget Call letter is supposed to be issued in April, containing expenditure ceilings for each BI. According to the budget calendar BIs are given about a month to prepare their detailed estimates; much of the estimation work having already been conducted during the earlier phase of budget request preparation. In practice, however, The Budget Call Letter may be issued late, and even then the ceilings may be adjusted through negotiations between BoFED and BIs. The Bureau of Health, for instance, received its expenditure ceiling in the Call Letter for FY 2013/14 (EFY 2006) on April 12, 2013 (compliant with the calendar) and submitted its capital and recurrent estimates late on June 12. The Addis Ababa City Roads Authority received its EFY 2006 Call Letter on May 13, 2013 (late by a month) and submitted its capital estimates on June 18, 2013. The Authority therefore had sufficient days to prepare its estimates, but the time available for BoFED to finalize the preparation of the budget, for Cabinet to review and then for the Council to review and approve it by the end of the fiscal year was insufficient. In general, BIs may be adjusting their estimates at the request of BoFED right up to the last minute. (The Call Letter for EFY 2007 (2014/15)) had not yet been issued at the time of the visit of the Assessment Team March 21, 2014.

(ii) *Guidance on the preparation of budget submission*

The Budget Call Letter contains the ceilings for recurrent and capital expenditures agreed by the City Cabinet. The guideline is comprehensive and clear, but program budgeting has not yet been introduced in the City Administration.

(iii) *Timely budget approval by the legislature*

In the last three years, the budget has been approved around the start of the Ethiopian Financial Year (EFY) (July 8). The 2013/14 budget (EFY 2006) was approved on July 11, 2013, three days after the start of the year.

Table 3.20 PI-11 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-11	A	B+	M2	
(i)	A	C	A clear annual budget calendar exists but is not generally adhered to, and does not allow BIs enough time (at least four weeks) to meaningfully complete their estimates on time.	Deterioration in compliance with the calendar
(ii)	A	A	A comprehensive and clear budget circular is issued to BIs showing the ceilings previously approved by the City Cabinet	No change
(iii)	A	A	Parliament approves the budget close to the start of the year, for the past three years	No change

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

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

The Medium Term Expenditure Framework (MTEF) is a three-year sectoral expenditure framework, which is rolled forward each year. The estimate for a year differs from the indicative figure for that year in the previous MTEF due to unanticipated changes in organizational structure, inflation, business process changes, capital project scheduling, etc. However, budgets are prepared each year from the same rolling MTEF rather than incrementally on the previous year's budget, so they are linked in terms of being based on the same policies.

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

The only formal debt is held by the Housing Development Project Office, a public enterprise (PE) that constructs affordable housing, and the Water and Sewerage Authority, a PE within the City Accounts (see also PI-17 (i)). DSA hardly applies to the City Government.

(iii) *Existence of costed sector strategies*

Some major sectors have costed strategies. However, it does not appear that they are designed within the City MTEF projections. In FY 2013/14 the Education Plan (capital only) aimed to spend ETB 321 million, while the allowed capital budget for that year (constrained within the resource envelope) was only ETB 142 million. A supplementary budget was later provided for ETB 36 million. As at the Federal level, the plan includes roughly double the resources allocated to education. Road and health strategies are not costed.

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

Budget estimates cover both recurrent and capital expenditure, and the Budget Call Letter requires that BIs include the recurrent expenditures that will result from completion of capital assets. Nevertheless, capital budgets are prepared separately from recurrent budgets and it is not clear that recurrent budgets are based on the needs of existing assets as well as new assets being commissioned. Capital expenditures are still generally preferred over operating and maintenance expenditures irrespective of comparative productivity, as evidenced by the Financial

Administrative Proclamation, which does not allow savings on capital budgets to be used toward better utilization of existing assets.

Table 3.21 PI-12 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-12	NS	B	M2	
(i)	A	A	Forecasts of fiscal aggregates are prepared for three years on a rolling annual basis, and links between multi-year estimates and subsequent budget ceilings are clear	No change
(ii)	NS	NA	Not applicable	No change
(iii)	D	C	Sector strategies are prepared for several sectors but cover capital expenditure only and are inconsistent with aggregate fiscal forecasts	Some improvement
(iv)	C	C	Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates in only major cases	No change

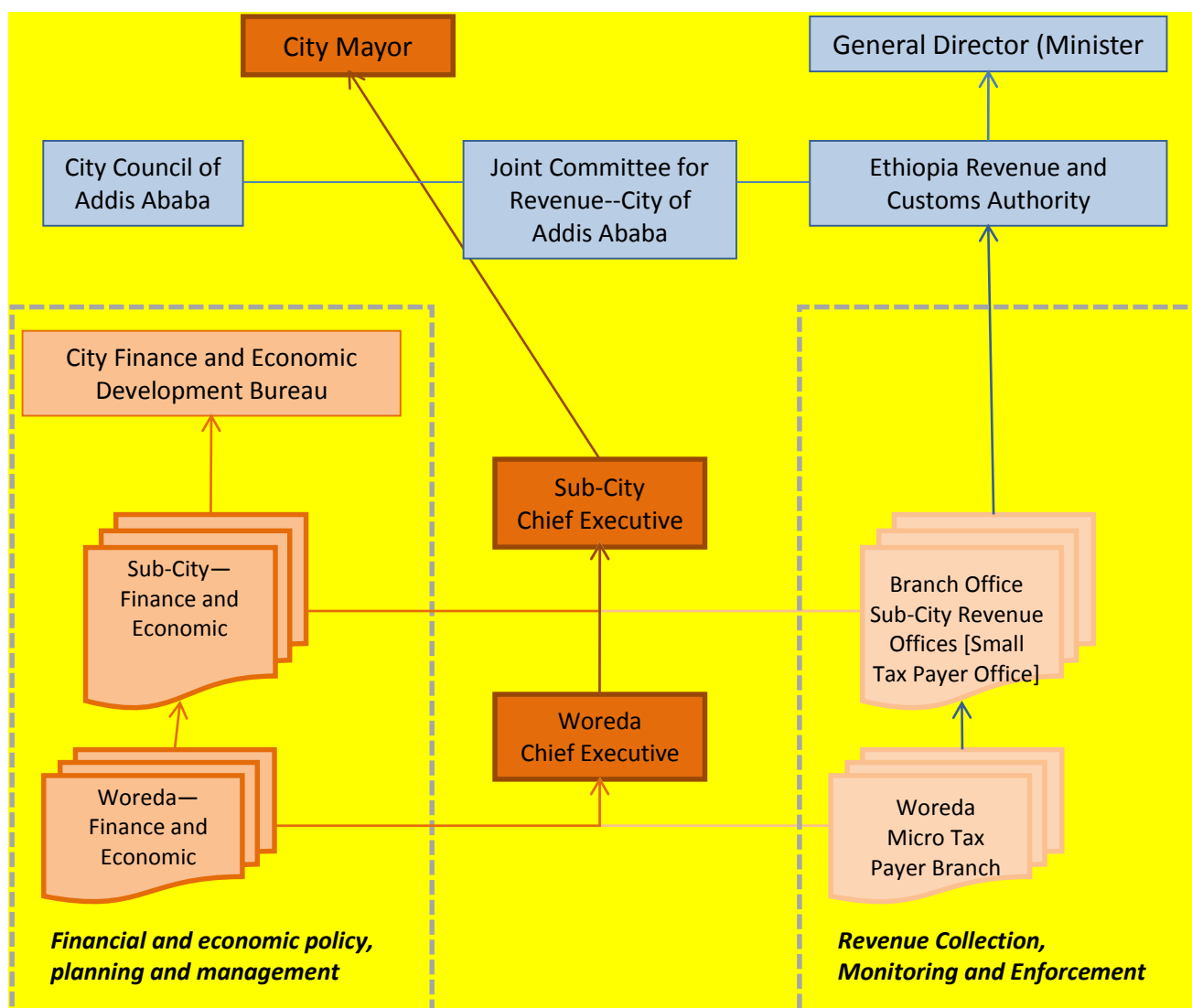
3.4 Predictability and Control in Budget Execution

PI-13 Transparency of taxpayer obligations and liabilities

(i) *Clarity and comprehensiveness of tax liabilities*

Revenue collection is undertaken by the sub-cities and woredas through their small and micro taxpayer branch offices. In 2010, these offices came under the jurisdiction of the Ethiopia Revenue and Customs Authority (ERCA) through a memorandum of understanding to administer the tax system of the city government. Federal revenues collected locally by ERCA are passed to the federal government, while city revenues from ten sub-cities and two special posts at Merkato are immediately transferred to the city. These offices report to both the City Government and the Federal Government (see chart below).

Structure of the Revenue Function



The existing tax laws implemented by the City Government of Addis Ababa are as follows:

- Income Tax Proclamation no. 286/2002 for all taxes on income and profits;
- Proclamations 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 no. 286/2002 for rental income tax;
- Proclamation no. 286/2002 for unincorporated business;
- Proclamation no. 286/2002 for capital gains tax;
- Stamp Duty & Sales Proclamation 110/1998 as amended by Proclamation no. 612/2009;
- Proclamations no. 285/2002 for value added tax (VAT) on goods and services as amended by Proclamations no. 609/ 2008;
- Income Tax Regulation no. 78/2002 as amended by Regulation no. 164/2009;
- Value Added Tax Regulation no. 79/2002;
- Excise Tax Proclamation no. 307/2002, as amended by Proclamation no. 610/2009;
- Turnover Tax Proclamation no. 308/2002 as amended by Proclamation no. 611/2009;
- Proclamation no. 693/2010 to amend the Income tax proclamation no. 286/2002 to include “windfall profit”;
- Chatt (Khat) Excise Tax Proclamation no. 767/2012.

All tax laws and regulations are posted on the ERCA website. In general the current rules and regulations are comprehensive and clear. No issues were raised by private sector representatives.

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Since the tax administration of the City is delegated to ERCA, information on tax liabilities and administrative procedures for taxpayers is provided by ERCA and all its branches in collaboration with the City Administration. The means of disseminating information to taxpayers are the same as at the federal level:

- Television and radio programs, documentary films, question and answer programs;
- Brochures, pamphlets, flyers, monthly bulletins;
- Discussion forums, training events, meetings with Chambers of Commerce;
- The ERCA website;
- Telephone calls for arrears; and recently
- The 8199 call center.

ERCA aims to enhance the awareness of Addis Ababa taxpayers and thereby encourage voluntary compliance, improve taxpayer relations, increase taxpayer registration, and improve taxpayer participation and partnership. Private sector representatives confirmed that ERCA has improved taxpayer relations and compliance since the 2010 assessment. It should be remembered that the private sector is only two decades old.

(iii) Existence and functioning of a tax appeals mechanism

The Ethiopian tax system offers various remedies for the rights of a taxpayer against arbitrary and discretionary measures of the tax authority. Centrally, there is a three-tier appellate system to resolve tax disputes. As per Income Tax Proclamation no. 286/2003, any taxpayer has ten days to appeal an assessment to the ERCA branch office responsible (Tier 1). Each branch office has an Appeal Review Committee with a given financial threshold. The Review Committee considers the case and makes its recommendation to the Branch Manager. If the taxpayer is not satisfied with the branch decision, he/she can apply to the second appellate tier.

A Tax Appeal Commission of Addis Ababa City (AATAC) is established by Regulation no.8/1998. The Commission is an independent judicial body headed by a President who is appointed by the City Council for a five year term. The Commission has two benches with five judges each, appointed by the City Mayor for a term of two years. These judges are from both sides of the litigation: four judges are from the Addis Ababa City Chamber of Commerce and four are from the City Government (2 lawyers, 2 accountants). The President of the AATAC sits on both benches. The taxpayer can appeal within 30 days to the Commission upon payment of 50 percent of the disputed assessment pending resolution. The 50 percent requirement is sometimes difficult for taxpayers. A fee is also payable, ranging up to 5 percent of the assessment, to deter frivolous appeals and recover the costs. Cases take on average one month to be settled, but difficult cases have taken up to a year. In the past three years, 250, 235, and 130 cases were decided by the AATAC (representing 96 percent of all cases brought). The proportion of cases decided in favor of ERCA (conviction rate) was 60 percent - 65 percent, while 35 percent - 40 percent were in favor of taxpayers.

A party dissatisfied with the decision of the AATAC may appeal within 30 days to the Court of

Appeal (tier 3) on the grounds that the decision was erroneous on any matter of law. It is estimated that 5-8% of cases are taken to the Court of Appeal. The court hears and determines any question of law and returns the case to the AATAC. An appeal to a higher appellate court may still be made by either party within a further 30 days.

Table 3.22 PI-13 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-13	B	A	M2	
(i)	B	B	Legislation and procedures for most taxes are comprehensive and clear, with limited discretionary powers of the revenue authority	No change
(ii)	B	A	Taxpayers have easy access to comprehensive, user-friendly and up-to-date information on tax liabilities and procedures, and the revenue authority supplements this with taxpayer education campaigns	Improvement. Private sector representatives confirmed that ERCA has improved taxpayer relations and compliance since the 2010 assessment.
(iii)	B	A	A tax appeals system of transparent administrative procedures is functional.	Improvement in efficiency since 2010.

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

(i) Controls in the taxpayer registration system

Under the current taxpayer registration system, every taxpayer in the country should have a Tax Identification Number (TIN). An automated TIN system has been developed, deployed and supported by a biometric system at the national level. In Addis Ababa since July 2012 a total of 448,715 fingerprints of Addis Ababa taxpayers had been collected at the time of the Assessment. The Standard Integrated Government Tax Administration System (SIGTAS) has been integrated with Automated Fingerprint Identification System (AFIS) and integration with the Card Production Facility (CPF) is under way.

In Addis Ababa, it is not possible to get a trade license or to form a company without registering for a TIN. A recent survey of the Merkato market area in Addis Ababa identified many traders without licenses: around 8,000 new taxpayers were registered and brought into the tax net.

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

Penalties are levied according to law for non-compliance with registration and declaration requirements. Penalties are levied on taxpayers who do not make their income declarations or file them late, those who understate income, those who pay late and those who do not keep proper books of accounts. Other penalties apply to not withholding tax, and not acquiring a TIN, and criminal penalties are also applied. Penalties, however, may be waived in whole or part if payment of taxes and interest is made. Since the tax administration of the city is delegated to ERCA, penalties may be waived according to a directive issued by ERCA. Although no data were available for review,

as the arrears collection ratio is high (see PI-15 iii), it appears that the penalties provide a sufficient incentive for payment and that revenue would be lower without them.

(iii) *Planning and monitoring of tax audit and fraud investigation programs*

While it is known that tax evasion is widespread, efforts to counter it continue, principally by improved tax audit and enhanced taxpayer compliance. The tax audit procedures for the city taxpayers have been aligned with the database system (SIGTAS). An annual plan is prepared by branch managers in collaboration with head office, based on 43 risk-based criteria. 92 percent of domestic tax revenues are from medium and small taxpayers: these groups are now separate organizational responsibilities. The tax audit program is monitored to relate the number of days spent on tax audits to the additional revenue assessments made. It is claimed that in FY 2012/13, 223 auditors generated ETB 4,755 million additional revenue (equal to 43 percent of revenue collection for the year).

Table 3.23 PI-14 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-14	C+	B	M2	Improvement under (i) & (iii)
(i)	C	B	Taxpayers are registered in a complete database with some linkages to trade licensing and company registration systems	Improvement. Increased TIN coverage through (1) introduction of biometric finger printing system; (2) Survey of Merkato market area leading to identification of businesses without TIN.
(ii)	B	B	Penalties exist but are not always effective due to inconsistent administration	No change. The penalty waiver directive system introduced since the 2010 assessment has strengthened compliance but not by enough to increase the rating .
(iii)	C	B	Tax audits and fraud investigations are managed and reported on according to a documented audit plan with clear risk assessment criteria	Improvement. (1) Enhanced focus on risk leading to increased revenue per auditor; (2) Increased number of auditors.

PI-15 Effectiveness in the collection of tax payments

(i) *Collection ratio for gross tax arrears*

The SIGTAS database includes end-year tax arrears, which are significant. Arrears at the beginning of FY 2012/13 (EFY 2005) were ETB 862.2 million, which was 6.7 percent of total EFY 2004 tax

collections. In FYs 2011/12 and 2012/13 the debt collection ratio stood 85.0 percent and 95.7 percent respectively for an average of 90.3 percent for both years (see Table 3.24 below). The calculation is made on arrears of tax and interest, excluding penalties, which were waived 100 percent in EFYs 2004 and 2005.

Table 3.24 Collection of Tax Arrears (ETB millions)

Budget Year	Arrears opening balance (A) = B+C	Opening arrears		Arrears collection within the budget year		Debt collection ratio (D/B)
		Tax plus interest (B)	Penalties (C)	Actual collections (D)	Collections & waived penalties (E=C+D)	
2011/12	510.2	331.6	178.5	281.7	460.2	85.0%
2012/13	862.2	541.6	320.6	518.2	838.8	95.7%
Average %						90.3%

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

Taxes are paid by certified check or cash at any of the woredas where the chief cashier collects it every day and at sub-city branches or a branch of the Commercial Bank of Ethiopia (CBE). Each sub-city branch has an account at the National Bank of Ethiopia (NBE). CBE branches transfer revenue to the NBE daily, and 90 percent of total collections are in the Treasury bank account within the day. A percentage of revenue is retained by ERCA for possible refunds. The Chamber of Commerce complains that VAT refunds are often delayed as revenue collections by ERCA can take several days to reach the Treasury Central Account (IMF 2011).

(iii) *Frequency of complete account reconciliation between tax assessments, collections, arrears records and receipts by the Treasury*

There is a monthly reconciliation of revenue collected by the branches with the amounts credited to the Treasury Account within 15 days of the end of the month. However, no reconciliation of opening arrears, assessments, penalties, collections, waivers and closing arrears could be produced to the Assessment Team.

Table 3.25 PI-15 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-15	D+	D+	M1	No change.

(i)	D	A	The average debt collection ratio for the past two years was over 90%.	Improvement due to strengthening under PIs 13 (ii) and 14 (i) & 14 (ii).
(ii)	B	B	<i>Revenue collections are transferred to Treasury at least weekly.</i>	No change. 90% of revenues collected are deposited with BoFED the same day, the rest within a week.
(iii)	D	D	Revenue collections reconciled with receipts by Treasury but no overall reconciliation of assessments, collections and arrears seen	No change

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

Effective execution of the budget in accordance with the work plans requires that the budgetary institutions receive reliable information on availability of funds within which they can commit expenditure for recurrent and capital inputs. This indicator assesses the extent to which BoFED provides reliable information on the availability of funds to BIs that manage budget heads in the city budget.

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

On approval of the annual budget each BI prepares a forecast of its monthly cash requirements, based on corresponding cash flow forecasts from its constituents. For the first month, BoFED releases one twelfth of the recurrent budget of each BI. For subsequent months the BI should submit a request by the tenth of each month to meet its needs for the following three months, together with copies of the payroll, procurement plan status and commitments, to justify its request. Separate requests are made for recurrent and capital expenditure and separate ceilings are issued. Releases may be cut if a BI has unspent funds in its zero balance bank account, e.g., because of contractor delays. BoFED processes requests and notifies each BI of its zero-balance ceiling by the fifth of the month. Releases for non-salary expenditures are done immediately, while releases for salaries are done at the end of the third week.

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

As described above, BIs get monthly releases (overdraft ceilings for their zero bank balance accounts) but can rely on the indicative amounts for the subsequent two months. BIs plan beyond the one month horizon and expect to meet forward commitments. Since 2001/02, there has not been any cash flow problem. If cash is insufficient, a BI can apply for an increase in its monthly ceiling, within its budget.

(iii) *Frequency and transparency of adjustments to budget allocations, which are decided above the level of BIs*

In-year adjustments by the Council in FY 2012/13 (EFY 2005) were made only once through a

supplementary appropriation in January 2013. BoFED makes reallocations among sector bureaus, sub-cities and woredas, within the approved total expenditure. The only restriction is that transfers cannot be made from a capital budget to a recurrent budget (irrespective of justification). Reallocations are made after consultation with the affected BIs and with cabinet approval. In Addis City, the contingency budget is in frequent use. From June to October 2012, 431 transfers were made from contingency code 6415 to a wide variety of other codes. Almost all BIs are affected. According to BoFED, these transfers are all requested by the respective budget institutions, and are usually allowed, especially to ensure that development projects can progress. There are no figures available on the number of budget transfers that are decided above the level of budget institutions, but they appear to be frequent.

Table 3.26 PI-16 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-16	C+	C+ ↑	M1	No change
(i)	B	B ↑	A cash forecast is prepared for the year and updated quarterly	The cash management system improved since 2010 through the Treasury Single Account and the zero balance system, which now extends to all universities. Cash flow is predictable against approved cash flow requests of BIs. However, no change in the score (monthly updating required for an A score).
(ii)	B	B	BIs are provided reliable information for the three months in advance	No change
(iii)	C	C	Significant in-year budget adjustments are frequent, but done after consultation	No change

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

The City Government may borrow from domestic sources with authorization by the Federal Government, identify external loan sources and request the Federal Government to secure the loan agreement for the benefit of the City (Revised Charter, Article 11, (2) (k)). At the time of this assessment the City had no formal borrowings, but its trial balance showed sundry creditors and other operating payables (ETB 2.8 billion at July 2013, equivalent to 25 percent of total expenditure for the year). The City Water and Sewerage Authority has a loan outstanding from IDA through MoFED, which is monitored through the World Bank Client Connection system.

(i) *Quality of debt data recording and reporting*

Due to the lack of domestic debt and monitoring of the sole foreign debt, the quality of debt data recording and reporting is not in doubt.

(ii) *Extent of consolidation of the government's cash balances*

The City Government including sub-cities and woredas has more than 800 bank accounts. Each BI at the city level has a zero-balance account for expenditure with the Commercial Bank of Ethiopia, a revenue account and a deposit account. Sub-cities and woredas do not yet have zero-balance

accounts, but are not included in this assessment. Revenue is also collected at 15 branches of ERCA and 10 branches of the Land Administration. Transfers of tax revenue to the BoFED Treasury Account are done daily and transfers from woredas are done weekly, although some take longer. There are also accounts for donor projects. BoFED can consolidate the balances of most City Government accounts weekly.

(iii) *Systems for contracting loans and issue of guarantees*

The City Government may not contract loans or grant guarantees without Federal MoFED authority as this authority is now subject to the Federal Medium Term Debt Strategy.

Table 3.27 PI-17 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-17	B+	A	M2	No change.
(i)	A	A	Debt data are of good quality and complete due to the very small number of loans	No change
(ii)	C	B	BoFED can consolidate the balances of most of the more than 800 bank accounts monthly. Some bank accounts (mainly for donor projects) remain outside the system	Improvement
(iii)	A	A	The contracting of loans and issue of guarantees are made against Federal criteria and fiscal targets, and approved by MoFED	No change

PI-18 Effectiveness of payroll controls

Payroll of the Addis Ababa City Government is decentralized to BIs. The Finance Administration Support Process¹¹ (FASP) of each BI is responsible for payroll preparation. Previously BIs used a Microsoft Access based payroll. Due to lack of IT support, changes to payroll fields and bugs with the system, BIs, including BoFED, switched to Microsoft Excel spreadsheets for preparing the payroll. The Human Resource Support Process (HRSP) of each BI maintains its personnel records. These are not automated or linked with the payroll system. The processes and controls are similar in BoFED, BoH, BoE and AACRA.

Net salaries are transferred to the savings accounts of staff from BI accounts by the 25th to 29th of the month. Some BIs pay salaries under ETB 1,000 in cash; partial salaries (for newly recruited or outgoing staff) are paid in cash.

Attendance sheets are controlled by the respective departments of the BI and transferred to HRSP weekly for review. Absenteeism is monitored by the HRSP unit and may lead to fines and termination of employment.

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

¹¹ Formerly combined with procurement as the Finance and Procurement Support Process.

Since each BI is in charge of its payroll and holds a corresponding personnel database, the department of the BI where the change occurred notifies the HRSP of changes in the personnel of a BI (hiring, promotion, salary and benefit changes, dismissal, and death). The HRSP then notifies the FASP by letter and changes are made in the payroll spreadsheet that month.

(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 made monthly. There is no evidence of retroactive adjustment. Notification of any change (except due to death) has to be provided to the HRSP by other departments in less than 30 days. In the case of death, existing regulations require payment to continue for three months following the death and even in this case no retroactive adjustment is necessary.

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

Changes in the personnel records are effected against official letters of other departments within the BI, authorized by the heads of the relevant departments. The department and FASP are copied on changes to the payroll. Authorization for changes in the payroll database is clear and changes can only be made by the accountant and the head of FASP. All changes are supported by prime documents, which can be consulted. Payroll sheets are signed by the accountant for preparation and approved by the head of FASP for final payment or transfer into staff bank accounts. The payroll system does not generate exception reports and does not keep a record of the time and author of each entry; therefore, there is no audit trail. The accountants and heads of the BIs reconcile the current month payroll against the previous month's payroll and change authorizations issued by HRSP.

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

Payroll audit is part of the regular annual financial audit procedures of the internal and external auditors and applies to all BIs. These audits are aimed at identifying management and control weaknesses, as well as "ghost workers". The payroll audit includes review of payroll sheets against prime documents issued and maintained by HRSP, actual cash transfers and weekly attendance sheets.

Table 3.28 PI-18 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-18	C+	B+	M1	
(i)	B	B	Personnel and payroll data are not directly linked, but payroll changes are fully documented and used for reconciliation with the previous month's payroll	No change
(ii)	A	A	Changes are updated monthly, usually in time for the following month's payroll	No change
(iii)	B	B	Authority for changes is clear, but there is no audit trail	No change
(iv)	C	B	Payroll audits cover all personnel.	More audit coverage

PI-19 Transparency, competition and complaints mechanisms in procurement

More than 65 percent of the annual budget is spent through procurement, so an effective procurement system is critical for the success of the Growth and Transformation Plan (GTP).

The actual practice of procurement in the City Government is decentralized to 184 BIs (public bodies or procuring entities). They are regulated by the BoFED Procurement and Property Administration Core Process (PPACP), located in BoFED. The main functions of the PPACP are to regulate procurement in accordance with the Council Proclamation no. 17/2009, Directive no. 3/2010, standard bidding documents and the Procurement Manual, and to build procurement capacity of all stakeholders. The PPACP also regulates disposal of public properties (see PI-20 ii). The Proclamation does not cover procurements by public enterprises, or procurements under external funding where the donor partner prefers to use different regulations.

Each BI is required to prepare and approve its annual procurement plan and send it (for information) to BoFED. The PPACP evaluates each plan and discusses it with the BI. Plans are posted on the BoFED website. During the year, intended individual procurements over the relevant thresholds (works: ETB 10 million, goods: ETB 3 million, consultancy: ETB 2 million, other services ETB 1 million) are also posted on the website and advertised in newspapers. Contract awards are not made public. Each BI has a Procurement Unit, and a Procurement Endorsing Committee (or Bid Approval Committee) of senior officers appointed by the head of the public body, which approves the bid documents before they can be issued, and the evaluation of bids before a contract can be given. The Procurement Unit acts as the secretariat to the Committee. All bidders are promptly notified of the results of the evaluation and have the opportunity to complain if they wish (see Dimension (iv) below).

Every BI is required to submit a quarterly report to PPACP showing the value (but not the number) of all contracts given during the quarter, categorized by method of procurement. These data are entered into the PPACP database. In FY 2012/13, 88.9 percent of the total value was reported as being through open bidding, 1.8 percent from restricted bidding, 0.8 percent from request for proposals, and 8.5 percent was reported under direct purchase (sole source). There is no verification of the data except indirectly through procurement audits of compliance with the Proclamation, Directive and standard documents and processes. These are carried out by PPACP so far as staff numbers and capacity allow. The PPACP has only eleven staff in post (and seven vacancies) and could audit only 14 of the 188 BIs in FY 2012/13. Errors and irregularities are documented and reported to the BI and to CAG, and a summary sent to the Council through BoFED. Corrective actions by each BI are checked in the next audit. According to PPACP, 50 percent of auditees respond to audit recommendations.

A review of some procurement audits conducted by PPACP shows that a few BIs did not prepare annual procurement plans, or the plans were not in line with their needs assessment and annual budget. There are instances in some BIs where sufficient time was not provided for bidders in accordance with the guidelines, bidders were not notified the bid evaluation results, bids were opened before the official bid opening dates, and standard bidding documents were not used. The CAG has indicated minor irregularities, including single source procurements which should have been through competitive bidding, as well as awards to unsuccessful bidders.¹²

¹² CAG audit report (Audit of Zewditu Hospital and Audit of Environmental Protection Authority).

The main issue in procurement is not the legal framework, which is based on international standards and is said to be widely understood, but the high turnover of procurement officers, due to low salaries and the lack of a procurement cadre with a promotion ladder. The demand for training is high and the PPACP has been providing extensive training through the EMCP and PBS programs, but there is also leakage to the private sector and into other (non-procurement) posts.

(i) *Transparency, comprehensiveness and competition in the legal and regulatory framework*

The requirements for the scoring of this dimension, and whether the state of affairs in the last completed year (FY 2012/13) meets each requirement, are listed in Table 3.29 below.

Table 3.29 Transparency in Procurement

Requirement	City Government practice in FY 2012/13
(1) The legal framework is organized hierarchically and precedence clearly established;	Yes. The Procurement Proclamation and Directive clearly establish the sole authority of the City PPACP on procurement by all the budgetary institutions listed in the budget each year.
(2) It is freely and easily accessible to the public through appropriate means;	Yes. The Proclamation and Directive are posted on the PPACP website (www.aabofed.gov.et)
(3) It is applied to all procurement undertaken using government funds;	Yes. It applies to all City Government procurements using national procedures.
(4) Open competitive procurement is the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	Yes. Open bidding is the default method under the Proclamation, and other methods are defined clearly and have to be justified.
(5) It provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	No. The Procurement Proclamation and Directive provides for public access to bidding opportunities and procurement plans only.
(6) It provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes. There is an independent Complaints Review Committee, and there is a seven day window in which complaints can be made before the contract is signed.

(ii) *Use of competitive procurement methods*

There are six methods described in the Proclamation: 1) open bidding (national or international); 2) request for (consultancy) proposals; 3) two-stage tendering; 4) restricted tendering; 5) request for quotation (RFQ); and 6) direct procurement (single sourcing). Open bidding is the default method.

Actual performance in FY 2012/13 was as shown in Table 3.30.

Table 3.30 Performance by Method of Procurement

Procurement method	Procurement plan ETB millions	Actual expenditure ETB millions	Percentage of actual expenditure

Open tender	9,345.7	7,125.2	73.9
Restricted tender	602.5	117.8	1.2
Single source	3,726.5	2,321.2	24.1
Request for proposal	29.4	15.6	0.2
Request for quotation		61.1	0.6
Total	13,704.6	9,640.9	100.0

Source: BoFED Performance Report for 2012/13

As shown in Table 3.30 above, about 26 percent of the total value of contracts is not subject to open competitive bidding, almost always using single source, the least competitive method. In each case, according to the PPACP, the method used is justified in accordance with the legal requirements, although this is contradicted by the CAG reports. In a sample of procurement audit reports seen by the Assessment Team, there are minor irregularities in certain BIs in terms of using non-competitive methods of procurement without sufficient justification. It is not possible to put a number on the percentage of non-competitive contracts that are not fully justified, as the CAG report (the only comprehensive and independent evaluation) does not provide an overall assessment of this, but it is evident that the percentage is less than 100 percent.

The draft revised PEFA Framework, circulated for comment in August 2014, has greatly simplified the scoring criterion, assessing the dimension in terms of the percentage of contracts above the threshold that were awarded through open competition, as opposed to the percentage justification of contracts awarded by value through non-competitive methods. In many PEFA assessments, including this one, this information is not readily available, resulting in D ratings even though open competition may be the norm (as is the case for the Ethiopia regional government assessments).

This dimension has to be assessed according to the present scoring criterion. The score is B.

(iii) Public access to complete, reliable and timely procurement information

There are four information elements required under this dimension: procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints. As mentioned above, only procurement plans and bidding opportunities are currently made available to the public.

(iv) Existence of an independent administrative procurement complaints system

There is an independent complaints system, but the complainant has to submit the complaint first to the head of the BI (procuring entity). The Proclamation requires that the head answer within ten working days. If the complainant is not satisfied, the complainant can submit the complaint (within a further five days) to the Complaint Review Committee (CRC), which is an independent body set up by the FY 2009 Proclamation. The CRC comprises two private sector representatives (from the Addis Ababa Chamber of Commerce), one from the Mayor's office, and two from BoFED. BoFED also acts as Secretariat to the CRC. It must meet within fifteen working days of receiving the complaint. In the meantime, the procurement is suspended. If the complainant is still not satisfied,

the case can be taken to a legal court, but this appears to be unusual. No consolidated data are available: in the Bureau of Education there were just two complaints in FY 2012/13, which were settled by the Bureau itself.

The requirements for scoring this dimension and the present situation are shown in Table 3.31 below.

Table 3.31 Procurement Review Requirements

Requirement	Present situation in Federal Government
(1) The review body comprises experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;	Met. The CRC includes members drawn from the private sector/civil society as well as from Government. All are experienced in procurement.
(2) The review body is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Met. The CRC is not involved in procurement processes, only on appeal.
(3) The review body does not charge fees that prohibit access by concerned parties;	Met. No fees are charged.
(4) The review body follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Met. The process is defined by the proclamation, which is on the PPA website, and is followed.
(5) The review body exercises the authority to suspend the procurement process;	Met. The procurement process is suspended while the case is being adjudicated.
(6) The review body issues decisions within the timeframe specified in the rules and regulations;	Not met in all cases. Some cases take longer than the statutory period (15 working days).
(7) The review body issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Met. Decisions are binding on all parties (but do not preclude bringing a case to court)

Table 3.32 PI-19 Results

PI	Score 2010	Score 2014	Justification for score	Performance change
PI-19	C+	B	M2	Assessment method changed, so comparison not possible
(i)	NA	B	Five of the requirements are met.	
(ii)	NA	B	At least 80% of the total value of contracts awarded through non-competitive methods are fully justified.	(i) Legal and regulatory framework has strengthened through revised procurement proclamation (2009) and associated procurement directive (2010).
(iii)	NA	C	Two of the information elements (bidding opportunities, procurement plans) are made available to the public in a timely manner for all procuring entities	(ii) 75% of contracts by value were awarded through open competition in EFY 2005.. The quality and availability of procurement performance data have strengthened considerably, enabling the scoring of this dimension.
(iv)	NA	B	The complaint system meets criteria (i), (ii) and (iii) of the five criteria	(iii) Improvement: Procurement plans were not publicized at the time of the 2010 assessment. (iv): Improvement: An independent Complaints Review Board has been established and is operational.

PI-20 Effectiveness of internal controls for non-salary expenditure

In accordance with the PEFA methodology, this evaluation refers to the internal controls for non-salary expenditures as of the time of assessment (March 2014).

BoFED issued a booklet of 11 financial management guidelines in June 2013, in line with the Financial Administration Proclamation of 2011. The guidelines include:

- A guideline for the procurement of goods and services (2/2011);
- A manual for administration of the budget (3/2011);
- A manual for cash management (4/2011);
- A cash disbursement manual (5/2011);
- The accounting procedure (6/2011)
- Financial accountability (7/2011);
- An internal audit manual (8/2011);
- Internal control standards (9/2011);
- Property administration (10/2011);
- The handover procedure (11/2011);
- The procedure on guarantors (12/2011);
- A procurement manual, issued in 2013.

Heads of BIs are responsible for ensuring that the internal control systems are followed, with support from internal auditors and CAG. The Procurement and Property Administration (PPA) is responsible for internal control and compliance with the procurement proclamation and guidelines.

(i) *Effectiveness of expenditure commitment controls*

The revenue shortfalls for the past three years in Addis Ababa City Government (see PI-3) have reinforced the importance of commitment control. BIs are permitted to enter into commitments (orders) only after ensuring that there is sufficient uncommitted budget and with the approval of the head of the BI; however, it seems that the law is not fully respected in some BIs. In FY 2010/11, ETB 425.8 million was overspent beyond the approved adjusted budget by 112 BIs (offset by underspending in other BIs, as indicated under PI-2), and 58 BIs spent ETB 101.5 million without an approved budget.¹³ The low stock of end-year payment arrears (A rating for PI-4) indicates that commitment controls are working.

The PEFA Framework requires not only that commitments be controlled within the budget, but also within projected cash availability. The IBEX system does not control commitments against projections of cash availability as derived by BoFED from the cash flow forecasts prepared by BIs (PI-16). It only monitors them, enabling calculation of remaining uncommitted budget balance after a new commitment has been entered into the system.

Financial administration departments in BIs can, however, through their manual control processes, block proposed commitments that would result in monthly cash expenditure limits (PI-17) established for the next quarter being exceeded (PI-16, PI-17). They can also block proposed commitments that would generate payables in following quarters not consistent with cash plans

¹³ CAG audit report issued on 19 October 2012.

earlier agreed with BoFED (or they could suggest rephrasing/adjustment of expenditure plans). Thus, cash availability is taken into consideration as well as unencumbered budget availability in terms of controlling commitments.

It may be the case that financial resource shortfalls result in cash not being available at the time of payment against commitments, but this is a predictability problem, that may impact the allowable time horizon for commitments (the greater the unpredictability, the shorter the time horizon, resulting in a lower score for PI-16 (ii) and may not be a commitment control problem. In this event, BoFED can work with BIs to determine the extent that expenditures can be rephased or adjusted. There are instances, e.g., in the AACRA, where cash payment certificates may exceed the planned cash requirements for multi-year construction projects. Variances are adjusted in subsequent cash requirement requests.

As indicated under PI-3, Addis Ababa City has a big financial resource predictability problem (D rating) due to significant overestimation of revenues. The City does not receive a block grant from MoFED, so, unlike with the regional governments, domestic resources comprise 100 percent of financial resources. If commitment controls were weak, this would likely have led to payment arrears, but these appear to be small, as indicated by an A rating for PI-4; unpaid bills due to lack of cash have not been reported as a concern by the business community.¹⁴ This indicates that commitment controls are working and take projected cash availability into account. The shorter time horizon on information provided to BIs by BoFED on financial resources available for commitment relative to the regional governments (B rating for PI-16 (ii) for AACG, A rating for the regional governments), indicates the much greater uncertainty of resource availability for AACG. The regional governments receive the bulk of their financial resources from MoFED through the block grant: the flow is very predictable.

It is expected that the introduction of IFMIS will enable the automation of commitment control processes.

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

Internal control procedures are comprehensive and include segregation of duties in the request, verification and approval of the movement of resources, including cash and cash equivalents, supplies and properties.

Payments are effected against approved payment requests and against verification of the budget. Payments for the purchase of goods and services are supported by the appropriate documentation. A detailed procurement procedure and guidelines offer thorough guidance on procurement activities.

There is a comprehensive property administration procedure manual. Annual stocktaking is conducted for cash, supplies and properties and internal auditors observe the process. There is also a procedure regarding payments for per diems and wages for casual labor. There is also internal control procedure on the usage and control of vehicles, fuel and vehicle maintenance.

¹⁴ Addis Ababa Chamber of Commerce.

Training is provided on guidelines and procedures by BoFED to staff of BIs, sub-cities and woredas. Rules and procedures are distributed to BIs and are relevant and well understood. Understanding of rules and regulations by internal auditors and CAG staff through training programs as compliance checks are part of the audit objective. In addition training on rules and procedures is often provided to staff. The implementation of business process re-engineering (BPR) based on studies conducted prior to the FY 2010 assessment and the implementation of balanced score cards are improving the efficiency of financial management.

According to reports by internal audit, CAG and PPA, there are gaps in understanding and compliance with certain procedures in some of the BIs due to high staff turnover and understaffing.

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

The limited staff of CAG (38 percent of posts filled) and internal audit (49 percent) affects audit coverage and limits the impact of audit on compliance. Nonetheless, audits conducted by CAG, Internal Audit Departments, Inspection Core Process (ICP) and PPACP, as well as follow-up by heads of BIs and ICP have contributed to greater compliance. Recently, the City PAC has been actively following up the findings of the CAG. In addition, the penalties indicated in the legislation for non-compliance with the rules and regulations and the engagement of the Federal Ethics and Anti-Corruption Commission in investigative audits have contributed to improved compliance.

Compliance gaps were reported for a number of BIs regarding budgetary control, and for other BIs regarding procurement and property administration. Property stocktaking, registration, identification and valuation are among the common compliance issues in property management.

Table 3.33 PI-20 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-20	B	B↑	M1	No overall change in terms of scores, but strengthening trends in place under (ii) and (iii).
(i)	B	B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for most types of expenditure with minor areas of exception.	No change.
(ii)	B	B↑	Other internal control rules are comprehensive and generally understood	More internal control procedures have been developed and disseminated and in use in 2010 and 2011.
(iii)	B	B↑	Compliance with rules is fairly high, but simplified/emergency procedures are used without adequate justification in some BIs	Overall improvement in many of the BIs, due to higher level of oversight.

PI-21 Effectiveness of internal audit

Internal audit activities at the city and sub-city level are carried out by the internal audit unit of each BI. An Internal Audit Manual, adapted from the Federal Internal Audit Manual, has been in use since FY 2006. Inspection Core Process (ICP) is the department responsible for supervision of internal audit activities throughout the City Government.

(i) Coverage and quality of the internal audit function

The ICP is developing internal audit manuals, training modules, building capacity¹⁵ and reviewing and supporting internal audit in the BIs, sub-cities and woredas. The ICP also conducts internal audits, mainly investigative audits, when requested by the City Council, the Cabinet, or the Federal Ethics and Anti-Corruption Commission. Internal audit units are established in all BIs (58), sub-cities (10), woredas (116), and schools and health centers. Depending on the size and complexity of BIs, between two and ten internal auditors are required for each unit. At the time of this assessment only about 49 percent of the internal audit positions were filled.¹⁶ The low level of staffing is due to high staff turnover, ascribed to low salaries and a uncondusive working environment.

The internal audit manual is generally in line with international standards. An annual audit plan is prepared based on priorities identified by the respective internal audit heads. However, the internal audit plan may not be prepared after thorough internal control/risk assessments. More than 60 percent of audit time is on transaction audits and the remaining time on systemic and risk based audits. Some of the heads of internal audit units are worried that the situation will worsen unless the salary scheme is revised.

(ii) Frequency and distribution of reports

Internal audit units are required to submit reports on financial audits at least quarterly and individual audits as they are completed, to the heads of BIs and to ICP (BoFED). Some of the BIs may not submit the minimum reports due to low levels of staffing and capacity gaps.¹⁷ ICP submits a summary of audit findings from all the internal audit reports to the head of BoFED. The Financial Administration Proclamation does not require internal audit reports to be submitted immediately to the CAG, but CAG auditors invariably consult the annual internal audit plan and audit reports when they plan the audit of each BI.

A summary of internal audit findings is sent to the City Council through BoFED. The ICP head attends hearings on audit follow-up by the City Council FEDC.

(iii) Extent of management response to internal audit findings

¹⁵ ICP sets standards for training programs for internal auditors. Each auditor has to attend at least 80 hours training per annum. In 2012/13, 410 internal auditors attended 10 days training.

¹⁶ The ICP staff level has declined to five auditors from nine auditors. The internal audit unit at BoFED has only one auditor out of 4 posts. The AACRA has seven auditors out of ten posts.

When an audit report is completed, the internal audit unit conducts an exit interview with the auditee and submits its report to the head of the BI, requiring that the auditee respond to the audit findings and recommendations within 10 days. The ICP also writes to the head of the BI requiring a response.

For serious irregularities or lack of response, the ICP visits the BI and discusses the planned actions with the head of the BI. A quarterly review meeting conducted by the ICP with all heads of internal audit units helps to reinforce follow-up. In FY 2012/13, the ICP provided awareness training to the heads of BIs. According to ICP, more than 70-80 percent of the BIs respond promptly to the audit findings and recommendations. However, some of the BIs visited estimated only 25-50 percent of the internal audit recommendations are followed up. Unsatisfactory responses are mainly due to limited awareness and staff turnover.

Table 3.34 PI-21 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-21	C+	C+	M1	
(i) Coverage and quality of internal audit function	C	C	Internal audit is functional in most entities and undertakes some systems review (at least 20% of staff time).	No overall change
(ii) Frequency and distribution of reports	C	B	Reports are issued regularly for most BIs and distributed to the BI, BoFED and (constructively) to the City Auditor General.	Reports are now submitted more frequently to the heads of BIs and BoFED.
(iii) Administration's response to the conclusions of the internal audit	B	C	A fair degree of action is taken by many managers but often with delay	Response appears to have deteriorated

3.5 Accounting, Recording and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

(i) *Regularity of bank account reconciliations*

There are more than 800 bank accounts for the Addis Ababa City Government including Z accounts, deposit accounts, payment accounts and donor funded project accounts. Z accounts are reconciled on a daily basis; other government bank accounts are reconciled within seven days of the end of the month. The bank reconciliation statement is an attachment to the monthly financial reports submitted to BoFED by BIs and sub-cities. The bank accounts of project funds are reconciled monthly within 30 days from the end of the month. All Treasury accounts are reconciled at detail level, though not at aggregate level.

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

Receivables include suspense accounts, staff advances balances, prepayments and other elements. In FY 2014 prepayments and other receivables amounted to ETB 2.4 billion. BIs reconcile and clear advances and suspense accounts by the end of the year. Other BIs reconcile more frequently

for certain accounts, especially staff advances. Other BIs, such as BoE and BoH, have some long outstanding balances.

Table 3.35 PI-22 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-22	B	B	M2	
(i)	B	B	Bank reconciliations are made monthly within four weeks at detail level.	No change
(ii)	B	B	Suspense accounts and most advances are cleared within the year or within two months of the year's end	No change

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

Addis Ababa City contains 768 primary schools, which report to the respective woredas, and 76 secondary schools, which report to the respective sub-cities. They receive resources from the City Treasury and General Education Quality Improvement Program, which is a multi-donor Channel 1 program. Each school has a notice board that displays the school budget and actual revenues and expenditures. The City Bureau of Education collects data on each school, including the resources received, and compiles it along with its annual reports.

Similarly, there are 53 health centers and six government hospitals. Resources are received from the City Treasury, UNICEF and UNFPA, which are all captured within the IBEX system. The Bureau of Health has information on all the health facilities and compiles annual reports.

Table 3.36 PI-23 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-23	NR	A	Routine data collection provides reliable information on all resources received by primary schools and health centers.	Not rated in 2010.

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

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

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

Monthly detail reports are prepared by BIs and submitted to BoFED. The reports include budget execution by detailed economic classification, by source of funds, payables, receivables, transfers and trial balances. Bank statements and bank reconciliation statements are also annexed to the report. The reports generated from IBEX do not show commitments. Monthly reports from BIs that are using IFMIS show commitments alongside the budget and the outturn. The monthly reports also show the outturn for the month and the year to

reporting date. The reports are simply in the form of tables; there is neither a narrative nor notes.

BIs separately report donor funded expenditures on a quarterly basis in a format agreed with the donors, which usually includes the budget outturn, cash flow and cash position.

(ii) *Timeliness of the issue of reports*

Most BIs submit monthly reports to BoFED between five and eight days from the end of the month: a few BIs with a high volume of transactions, including AACRA, Housing Development Project and the Revenue Authority, submit between the 20th and 30th of the following month. Since there is no online networking between BoFED and BIs, the monthly reports of the BIs are entered manually into IBEX by Accounts to generate consolidated financial reports at the city level. The financial report, together with other departmental reports of BoFED, is completed within 45 days from the end of the quarter, and is submitted to MoFED and the City Cabinet. The quarterly financial report covers about 95 percent of total expenditure as a few of the smaller BIs may not submit their financial reports within 30 days of the end of the quarter.

In-year reports on Channel 1 donor projects are consolidated quarterly and submitted to MoFED 90 days from the end of the quarter. This delay is due to the fact that data is consolidated primarily at woreda level, then at regional level.

(iii) *Quality of information*

BoFED accountants check the monthly financial reports before entering the data into IBEX. Errors and adjustments if any are communicated to BIs and adjustments are reflected in the subsequent month's report. In-year financial reports are generally accurate and reliable. The uses of IBEX and better internal audit have contributed to the quality of financial reports. Generally, there has also been improvement in quality of Channel 1 reports.

There are some concerns expressed about the quality of data. Significant discrepancies between 'below-the-line' data on the domestic financing of the budget deficit and the monetary accounts continue to complicate assessment of fiscal developments (IMF Article IV, Oct 2013. See also note on budget outcomes in Chapter 2.2 above).

PI	Score 2010	Score 2014	Justification	Performance change
PI-24	C+	C+	M1	
(i)	C	C	Classification of data allows direct comparison with the budget, but only at the accrual and payment stages, not at commitment stage	No change
(ii)	A	B	Consolidated reports on the City BIs are prepared monthly and are issued within six weeks of the end of the month	The 2010 assessment did not take into account the delay in reporting by BIs to BoFED.
(iii)	C	C	There are some concerns about data accuracy, which may not always be highlighted in reports, but these do not undermine their basic usefulness	No change

PI-25 Quality and timeliness of annual financial statements

The consolidated year-end financial statements provide sound evidence of the PFM system's transparency. This indicator assesses the quality of annual financial reporting based on its comprehensiveness, timeliness and standards used.

Firstly, the legal framework is confusing. The City Revised Charter (2003) indicates only that financial administration of the City shall be conducted according to accepted accounting norms, the country's finance law and the law to be issued by the City Council. The latter is the Financial Administration Proclamation 16/2009, according to which BoFED shall prepare consolidated public accounts for each fiscal year, which shall embody the audited accounts of public bodies (BIs) and the audited consolidated accounts of the sub-cities, and submit them to the Auditor General. No time limit is expressed in the Proclamation, but the consolidated accounts with the opinion of the Auditor General must be submitted to the Cabinet and Council by the end of the following year (Articles 56-60). BIs must also submit financial reports directly to the Mayor or Cabinet (article 59). The Financial Administration Regulations no. 39/2011, issued by the City Cabinet under authority of the Proclamation, require BoFED to submit quarterly, semi-annual and annual financial reports to MoFED (Article 53) showing financial transactions between the Federal Government and City Government, performance against budget, and reports on the financial status of the City Government on a consolidated and comparative basis (Article 57).

On revenue and expenditure items, the original budget and adjusted budget (after supplementary authorization) are shown for comparison and the variance from the adjusted budget (over or under) is also shown, but without explanation or analysis.

The quality of the annual statements may be judged from the audit opinions given: for 2012/13, there were no unqualified audit reports, 46 qualified and 2 disclaimers. Two BIs failed to close and submit their accounts.

As stated under PI-8 (iii), there is a monthly consolidation of City Government BIs. This does not include public enterprises controlled by the City Government (as would be required under cash or accrual IPSAS, but not by PEFA).

(i) Completeness of the financial statements

The annual financial statements of the City Government include information on revenues and expenditures, and financial assets and liabilities. Financial assets include bank balances, staff advances, prepayments and other receivables. Financial liabilities include accounts payable, salaries and deductions in arrears, deposits and external debt.

(ii) Timeliness of submission of financial statements

The last annual financial statements are for FY 2012/13 (EFY 2005). These were in draft as they had not yet audited at the time of assessment. According to the Proclamation, the consolidated accounts with the opinion of the Auditor General must be submitted to the Cabinet and Council by the end of the following year.

There has been considerable improvement in the timeliness of draft financial statements to CAG. For the EFYs 2003, 2004 and 2005, financial statements were submitted to CAG three to four months from the end of the fiscal year (see Table 3.38 below).

Table 3.38 Timeliness of Submission of Financial Statements to CAG

Financial Statements	EFY2003 2010/11	(FY	EFY2004 2011/12)	(FY	EFY2005 2012/13)	(FY
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Statements received by CAG	November 14, 2011	November 22, 2012	November 1, 2013 ¹⁸
Timeliness of submission (from the end of the EFY)	4 months + 4 days	4 months + 12 days	3 months + 21 days

Sources: Accounts Department, BoFED and CAG

(iii) *Accounting standards used*

The annual financial statements are prepared on an historical cost basis, using a modified cash basis of accounting. Revenue is recognized on receipt, except for employee income tax and fines (recognized on payroll processing), interest on salary advances (same), and deduction of withholding tax from payments to suppliers (on payment of invoices). Tax revenues are recognized on receipt by ERCA. External assistance is also recognized on receipt. Aid in kind¹⁹ should be valued before being brought to account, but this is not done.

Expenditure is recognized on a cash basis during the year, but accrued at the end of the year for the annual statements.²⁰ The accounts are kept open for a grace period of one month after the end of the financial year so that outstanding liabilities can be settled against the previous year's budget. Salary and pension payments are recognized when the payroll is processed (monthly), while interest on public debt is recognized on payment. Every transaction in foreign currency is translated into ETB at the prevailing exchange rate on the date of transaction, while end-of-year balances are translated at the prevailing rates on July 7. Losses due to depreciation of the birr are written off as expenditure (and vice versa).

The financial statements are moving toward the international standard (cash-based IPSAS), in that from FY 2011/12 a cash flow statement (broken into operating, investing and financing activities), statement of financial position and statement of financial performance are included, together with extensive notes and supplementary disclosures. However they do not claim to comply with IPSAS, and in some respects are not in fact compliant. An analysis of accounts payable and receivable is included, but no list of institutions incorporated into the accounts, statement of undrawn external aid, contingent liabilities, and so on.

Table 3.39 PI-25 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-25	C+	C+ ↑	M1	
(i)	B	A	The annual City government statement includes full information on revenue, expenditure, and financial assets/liabilities.	Improvement in coverage
(ii)	C	A	Statements have been submitted 3-4 months from the end of the year	Improvement in timeliness

¹⁸ Letter issued by BoFED was on October 20, 2013, but reached CAG on November 1, 2013

¹⁹ There are two categories of aid in kind: (1) direct payments by donors to suppliers, contractors and consultants on receipt of withdrawal requests by the government (either loan or grant), and (2) emergency assistance that is managed by donors without government involvement. The City Proclamation defines aid in kind to include both categories. IPSAS requires only the first category to be brought into the financial statements.

²⁰ One of the BIs, AAWSA, is preparing its accounts on a full accrual basis.

(iii)	C	C ↑	Statements are presented in consistent format over time with disclosure of accounting standards	No change in the score, but a significant improvement in presentation and disclosures
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3.6 External Scrutiny and Audit

PI-26 Scope, nature and follow-up of external audit

The use of public funds can be transparent only with a high quality external audit. The legal framework for the Addis Ababa City Auditor General (CAG) is the Addis Ababa City Revised Charter and Proclamation no 29/2012, pursuant to which, the City Council appoints the CAG from three candidates proposed by the mayor. The CAG is independent. The CAG and Deputy CAG cannot be removed from office before retirement except through resignation, disciplinary breach, grave incompetence or poor performance, proven inability to fulfill responsibilities because of illness, or where the City Council decides to that effect.

The functions and powers of the CAG include audit of the City Accounts, including externally funded projects, accounts of private contractors with contractual value exceeding ETB 1 million, public enterprises, and provision of training to internal auditors. The CAG inspects and reports to the City Council on the efficiency, performance effectiveness, resource utilization and administration of the City Government. There are about 600 audit entities for which the CAG is responsible, including BoFED, 58 city-level BIs, 10 sub-cities, sector offices within sub-cities, 116 woredas, and schools and health centers. Five of the public enterprises owned by the City Government are audited by private audit firms. The annual audit summary report of CAG includes the audit findings on these public enterprises.

The CAG classifies audit entities by the level of risk. About 60 audit entities are categorized as high risk and these are audited every year. One hundred and seventeen entities, including sector offices and hospitals are categorized as medium level risk and are audited every two years. The low-risk BIs number about 420 and are audited every three years. Audit coverage of the CAG is restricted by the number of audit staff. The CAG currently has 69 auditors in post, which is only 32 percent of the estimated requirement. The high proportion of vacancies is due to rapid staff turnover, mainly due to salary competition from other sectors.

(i) *Scope/nature of audit performed (including adherence to auditing standards)*

The CAG's audit coverage of City Government expenditure stood at 47 percent in its latest completed audit year (FY 2011/12, EFY 2004), against a target of 50 percent. Sixty one BIs were audited in FY 2011/12 and 53 audits completed in FY 2012/13. In addition to audits of individual entities, the CAG conducts a financial audit of the consolidated financial statements of the City Government, and an interim audit of the half-yearly financial statements. Since FY 2011/12, the CAG has conducted a continuous audit of about 30 high-risk audit entities to increase audit coverage and improve the timeliness of audit reports. Apart from financial audits, it conducts performance audits²¹ on selected BIs based on its annual plan. The CAG also carries out special audits (investigative audits) initiated by the City Administration and the Federal Ethics and Anti-Corruption Commission.

²¹ CAG completed three performance audits on 2011/12 activities and had completed two performance audits on 2012/13 up to April 2014.

The CAG follows INTOSAI International Standards for Supreme Audit Institutions (ISSAIs). It has adopted and is using the AFROSAI-E Regularity Audit Manual (2012 version). Therefore a focus on significant and systemic issues.

(ii) *Timeliness of submission of audit reports to the legislature*

According to CAG Proclamation no. 29/2012, the CAG is expected to submit its report on the consolidated financial statements of the City within four months of receipt, and include the findings in its annual report to the City Council.

At the time of this assessment (April 2014), the last submitted audit report was EFY 2004. The timeliness of submission of audit report from the date of receipt of consolidated report from BoFED was improved in EFY 2003 compared with the performance in EFY 2002, but the audits for EFY 2004 and 2005 have been seriously delayed.²² A further audit report (for EFY 2005) was completed after the assessment. Scoring of this dimension was based on this last audit report.

Table 3.40 Timeliness of Financial Audit by the City Auditor General

Financial Statements	FY2009/10 (EFY 2002)	FY 2010/11 (EFY 2003)	FY 2011/12 (EFY 2004)	FY 2012/13 (EFY 2005)
Received by the CAG	December 3, 2010	November 14, 2011	November 22, 2012	November 1, 2013 ²³
Exit conference	June 28, 2011	February 14, 2014	February 20, 2014	February 20, 2014
Audits of financial statements completed by the CAG and submitted to the City Council	July 18, 2011	July 7, 2012	Completed April 11, 2014	Audit report issued July 7, 2014
Duration of audit	7 months 15 days	6 months 23 days	16 months +	

(iii) *Evidence of follow up on audit recommendations*

Following interim audits, interim management letters are issued to the auditees on audit findings that need immediate action. An auditee is required to respond within 10 days of receipt of the management letter and report to the CAG within 30 days on the actions taken.

According to the FY 2010/11 consolidated audit report, 14 out of 58 auditees (24 percent) responded to the CAG on audit of budget utilization of assistance funds, and 23 out of 53 auditees (43 percent) responded to financial audit findings. Following the establishment of the FEDC (the new PAC), CAG estimates that 90 percent of the auditees are responding satisfactorily to audit findings and recommendations.

The individual audit reports on BIs include sections that report on management response to the previous findings and recommendations. CAG conducts separate follow-up audits specifically targeted to see whether auditees have acted on the recommendations.

²² About 10 senior audit staff who were responsible for the audit of the consolidated report left the CAG. It took a long time to recruit and train new staff.

²³ Cover letter issued by BoFED was dated October 20, 2013, but it reached CAG on November 1, 2013.

Table 3.41 PI-26 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-26	D+	D+	M1	No overall change, but increased scores under (ii) & (iii).
(i)	D	D	Audit coverage is less than 50% of total expenditure	Some improvement in coverage although no change in the score
(ii)	D	C	Audit reports are submitted to the legislature within 12 months of receipt of financial statements by the auditors.	Improved timeliness to 8 months for EFY 2005 from 19 months for EFY 1999 (last report submitted at time of 2010 assessment).
(iii)	C	A	There is clear evidence of effective and timely follow up.	Improved management response

PI-27 Legislative scrutiny of the annual budget law*(i) Scope of the legislature's scrutiny*

The Finance and Economic Development Committee (FEDC) is a standing committee of seven members, appointed by the Speaker of the City Council, all from the ruling party (there are no opposition members in the Council). It combines the roles of review of draft budgets before they are approved by the Council, monitoring of budget execution, and scrutiny of audit reports after the year has ended. There are no specialized review committees.

The FEDC does not examine the MTEF, although it is received by the Council. It receives the draft budget 10-15 days before the end of the year (June 21, 2013 for FY 2013/14), and reviews the BoFED draft plan, budget assumptions and estimates. There is considerable consultation with city residents (see PI-11 above). The FEDC receives quarterly reports on budget execution (financial and physical performance) from BoFED.

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

Both the legislature and the executive are controlled by the party in power. The budget procedures are well established and respected. The City Council follows the manual used by the HPR.

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

BoFED submitted the draft budget for 2013/14 to the Council on June 21, 2013 and the budget proclamation on July 10, 2013. The approved proclamation was dated July 11. Hence, the time between FEDC's receipt of the draft budget to the deadline for approval by the Council is less than three weeks (19 days). According to the PEFA Framework, this is not sufficient for meaningful debate, although what constitutes meaningful debate may vary from country to country.

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

A supplementary appropriation is sought by the executive only if the approved aggregate expenditure budget is insufficient. This usually happens once a year, and after six months

performance. BoFED seeks Cabinet approval for an adjusted budget in January. The same procedure is followed as for the original budget. It should be noted that any *reduction* in expenditure below the approved estimates, e.g., due to a shortfall of resources, is managed by BoFED and does not require legislative authorization. BoFED also has flexibility to transfer budgetary provisions between BIs or sub-cities if the transferor cannot use all of its budget. The only restriction within the overall ceiling is that savings on the capital budget cannot be used to increase recurrent expenditure, irrespective of the impact on service delivery.

Table 3.42 PI-27 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-27	C+	D+	M1	
(i)	C	C	The FEDC review covers detailed estimates of revenue and expenditure, but only after detailed proposals have been finalized.	No change
(ii)	B	B	The legislature's procedures are well established and respected	No change. The City Council follows the manual used by the HPR.
(iii)	B	D	The time allowed for the legislature's review is significantly less than one month.	No real change. 19 days was provided for review of the 2013/14 draft budget. The 2010 assessment mentions that 'about a month' was provided for, without mentioning exact dates. It is likely that the time has not changed.
(iv)	B	B	Clear rules exist and are respected, but allow extensive administrative reallocations	No change

PI-28 Legislative scrutiny of external audit reports

The City Council should close the cycle of public accountability by scrutinizing the execution of the budget that it approved. The City Auditor General (CAG) submits reports through the Deputy Speaker to the Finance and Economic Development Committee (FEDC). As explained under PI-27, the FEDC has seven members appointed by the Speaker from Members of the House for the term of the Parliament (five years); this was re-established in December 2013. The CAG does an interim audit report on the first six months' financial statements, and a final audit report on the full year.

(i) *Timeliness of examination of audit reports by the legislature*

The CAG summary report is submitted around July each year (12 months from the end of the Fiscal Year). The FEDC finishes its scrutiny by end May, 22 months after the end of the year, and 10 months after receipt of the CAG report.

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

Hearings are held three times a year and are attended by the auditee (head of sector bureau, etc.) and a representative of the CAG. Members of other standing committees may also attend.

(iii) *Issue of recommended actions by the legislature and implementation by the executive*

The CAG report is accepted without any disagreement, and provides the basis of accountability to the Council. The FEDC does not make any separate recommendations, nor does it issue a formal report. All follow up is by CAG, in the course of its audit the following year.

Table 3.43 PI-28 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-28	C+	D+	M1	2010 scores for (i) and (iii) seem incorrect. No real change.
(i)	A	C	The financial audit review is completed by May, 10 months after receipt of the CAG report	Comparison not possible. The last FEDC review was completed 10 months after receipt of the financial audit report from CAG. At the time of the 2010 assessment the FEDC was carrying out its review within two weeks, which seems implausible.
(ii)	C	A	In-depth hearings take place consistently with responsible officers from entities on which the CAG has commented	Improvement.
(iii)	C	D	No separate recommendations are made by the FEDC	The C score in 2010 appears to be due to crediting the FEDC with the recommendations made by CAG. No real change.

1.7 Donor Practices

D-1 Predictability of Direct Budget Support.

The City Government does not receive direct budget support from donors. External assistance goes through the Federal Government, therefore this indicator is not applicable.

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

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

Forecast and actual program and project support is shown in Table 3.44.

Table 3.44 Forecast and Actual Program/Project Support (ETB millions)

Donor	2010/11		2011/12		2012/13	
	Forecast	Actual	Forecast	Actual	Forecast	Actual

World Bank/IDA	183.2	30.9	55.0	10.0	-	27.4
ILO	-	-	-	-	-	0.5
UN Conservation & Development Fund	19.5	-	-	-	-	-
UNICEF	39.1	18.6	26.9	10.4	19.5	17.9
UNDP	0.5	4.4	-	0.1	-	0.3
UNESCO	-	-	-	-	-	0.2
UNFPA	5.3	0.7	2.4	3.8	1.3	2.4
France	8.7	8.2	10.8	1.2	155.1	0.2
Italy	-	-	-	-	-	0.4
Korea	-	-	-	-	13.6	-
Spain	-	-	2.0	-	-	-
Japan	0.4	-	-	-	-	-
Others	-	0.6	0.2	-	-	-
Total grants	256.7	63.4	97.3	25.5	189.5	49.3
IDA loan	181.1	68.4	179.6	70.7	-	353.2
France loan	40.8	-	-	-	-	-
Total aid	478.6	131.8	276.9	96.2	189.5	402.5

Source: BoFED Accounts: Revenue Budget vs. Actual by Account Code

PEFA requires that donor support be predictable. Good practice is that all major donors provide estimates of their support for the coming budget year, broken down by quarter, in time for this to be taken into the Macro-Economic and Fiscal Framework (in Addis Ababa City, by February). However the Assessment Team has not seen any evidence of quarterly forecasts or annual forecasts with quarterly breakdowns. Table 3.44 above shows that many forecast inflows do not materialize and many inflows are not forecast. Except for an unexpected loan receipt from IDA in FY 2012/13, forecasts are grossly over-estimated.

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

Donors do not generally provide quarterly data on actual disbursements.

Table 3.45 D-2 Results

PI	Score 2010	Score 2014	Justification	Performance change
D-2	D	D	M1	
(i)	D	D	Donors do not provide quarterly forecasts of disbursements	No change
(ii)	D	D	Donors (at least the largest five) do not provide quarterly reports of actual disbursements within two months of the end of each quarter	No change

D-3 Proportion of aid that is managed by use of national procedures (country systems)

Table 3.46 Share of Aid using National Procedures

Donor	Receipts	Procurement	Payments/ Accounting	Reporting	External Audit
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	FY 2012/13 (ETB million) weighting				
World Bank/IDA	380.6	29%	70%	70%	100%
UN group	21.3	0%	0%	0%	0%
Weighted averages		27%	66%	66%	95%
Overall average		64%			

Source: Interviews with donor agencies above.

Table 3.47 D-3 Results

PI	Score 2010	Score 2014	Justification	Performance change
D-3	A	C	64% of funds to the City Government are managed through national procedures	The previous assessment reported that all external assistance received by the City was managed through local procedures. Apparent deterioration.

4. Government Reform Process

4.1 Recent and Ongoing Reforms

All government reforms, at all levels, are planned and managed within the overall national plan, the Growth and Transformation Plan (GTP), a common framework for development and achievement of the Millennium Development Goals (MDGs) in Ethiopia. The GTP (FY 2010/11-2014/15) was issued in November 2010, with the objectives of: (1) attaining high growth within a stable macroeconomic framework; (2) achieving the MDGs in the social sector; and (3) establishing a stable democratic and developmental state.

The GTP does not address issues relating to public financial management (PFM), with the exception of strengthening financial audit. While the government has plans to continue reform processes in budget formulation and execution, with the ongoing technical assistance of development partners, they do not form part of the GTP.

The Public Sector Capacity Building Program (PSCAP) started in 2005 under the Ministry of Capacity Development. It comprises six sub-programs: the Civil Service Reform Program (CSRP); District Level Decentralization; Justice; Tax and Customs; Urban Management; and Information and Communication Technology. The first phase ended in December 2012. PSCAP II (FY 2013-2017) is funded by GOE, IDA, EU, DFID and IDC (USD 145 million). It has links with the Promoting Basic Services program (PBS III) and the ongoing Democratic Institutions Program (DIP), coordinated by UNDP. The second phase of PSCAP it is planned to forge strong synergies with these complementary actions or programs to ensure maximum impact, avoid duplication and reduce transaction costs.

Ethiopia's indicator for government effectiveness has shown trends of improvement over the last seven years as a result of Public Sector Reform (PSR) efforts (World Bank April 2013). The Civil Service Reform Program (CSRP) has five sub-programs, including the Expenditure Management and Control Program (EMCP), which is implemented by MoFED. It covers all phases of budget management of expenditure, and is divided into 12 projects; legal framework; procurement; budget preparation; expenditure planning; accounts; internal audit; cash management; IFMIS; property management; external audit; accounts and audit profession; and financial transparency and accountability. The external audit project is managed by OFAG and the other 11 projects are implemented by MoFED.

Ethiopia's PBS Program (formerly the Protection of Basic Services Program) is a nationwide program that aims to contribute to: (1) expanding access to basic services - education, health, water supply, sanitation, rural roads and agricultural extension services; and (2) improving the quality of these services. It funds block grants that support adequate staffing and recurrent expenditures for these services, accompanied by measures to promote transparency and accountability at the woreda level. It has also helped to strengthen the decentralized public financial management system and supports local civil society organizations that improve opportunities for citizens to provide feedback on service delivery to local administrators and service providers. It serves the whole Ethiopian population, and has contributed to large gains in human development and Ethiopia's rapid progress toward many of the MDGs that fall due in FY 2015.

The PBS was established in 2006 and is now in its third phase, funded by GOE, the World Bank,

the ADB, DFID-UK, the EU, Austria and Italy. The social accountability component is being supported by DFID, KfW (Germany), Irish Aid, and the EU. A PBS Secretariat was established by the donors to facilitate and coordinate the dialogue on the program and its implementation, and provide analytical support. MoFED is the implementing agency for the program, coordinated by the Channel One Programs Coordinating Unit (COPCU) and the PBS Secretariat (PBS II ICR, 2013).

Public financial management reforms in the City Government since FY 2010 include the following:

- Issue of Financial Administration Proclamation 39/2011 and several Finance Directives;
- Issue of Procurement Directive no. 3/2010, and guideline/manual and trained all woreda procurement staff;
- Establishment of the legal framework for property administration, and staff training;
- Roll-out of IBEX system to sector bureaus, sub-cities, and woredas, and staff training;
- Connection of woredas with Woredanet;
- Training on line item budgeting;
- Implementation of zero-balance account system for BIs in Addis Ababa;
- Establishment of Audit Committees in woredas;
- Revision of internal audit manuals;
- Dissemination of budget information to the public through various media.

4.2 Institutional Factors Supporting Reform planning and Implementation

Government leadership and ownership of its PFM reforms is high. Most PFM reforms are implemented within the Expenditure Management and Control Program, coordinated by the EMCP Coordinating Unit in MoFED, and covering all levels of government, including Addis Ababa City Government. MoFED has been the main driver of reform and is expected to continue this leadership. Reforms at the Federal level are models for adoption at the regional level.

The EMCP started in FY 2006/07 (EFY 1999) and is managed by a Steering Committee chaired by the Minister of Finance, and including senior GOE officers and representatives of donor partners.²⁴ The program is divided into 12 projects, each of which has a designated Project Manager. Performance is monitored against a rolling three-year action plan. The current action plan lists 56 activities, their implementation by year, and responsible bodies (MoFED Directorates, the PPA, regional and woreda administrations, etc.).²⁵ Progress is monitored weekly by project managers, monthly by the EMCP Coordinating Unit in MoFED, and quarterly by the high level Steering Committee. Progress reports are used to revise and update the action plan. External diagnostic studies such as the CPAR and PEFA assessments are also major sources.

The Development Assistance Group of donor partners (DAG) provides harmonized support and funding to the GTP, promotes the OECD DAC harmonization agenda, strengthens government monitoring and evaluation systems, and provides strategic and coordinated support to focus areas of the GTP, including education and gender mainstreaming. For PFM there is a specialized Donor Group of interested donors, co-chaired at the time of the assessment by DFID and the World Bank.

²⁴ MoFED (2011) Expenditure Management and Control Reform Program: Tasks and Implementation, 3rd edition, July 2011

²⁵ MoFED/EMCP (2012) EMCP Action Plan for 2013-2015, November

The Joint Budget and Aid Reviews are a further monitoring and coordinating mechanism. This is a platform for federal and regional governments and donor partners to review the reform plans and achievements and to resolve issues.

Appendix A Summary of Performance Indicator Scores

PI	Indicator	Scoring	Brief explanation and sources used	Performance change
A. PFM-OUT-TURNS: Credibility of the budget				
HLG-1	Predictability of transfers from higher level of government	C+	(i) In only one year the shortfall in total transfers exceeded 10% of budget (B) (ii) In only one year the shortfall in earmarked transfers exceeded 10% of budget (C) (iii) Actual transfers have been distributed evenly across the year in all of the last three years (A)	Improvement in estimation and timeliness of transfers
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	Out-turn deviated from budget by more than 15% in all the last three years. Information from Accounts, BoFED	No change
PI-2	Composition of expenditure out-turn compared to original approved budget	D+	(i) Composition variance exceeded 15% in all the last three years (D) (ii) Expenditure charged to contingency was nil in all years (A) Information from Accounts, BoFED	No real change as 2010 score would be D on the new method. Dimension ii did not apply in 2010.
PI-3	Aggregate revenue out-turn compared to original approved budget	D	Revenue out-turn was below 92% of budget in all the last three years (D) Information from Accounts, BoFED	No real change as 2010 score would be D on the new method
PI-4	Stock and monitoring of expenditure payment arrears	B+	(i) Stock of arrears is less than 2% of total expenditure (A) (ii) Data on payables available but not with age analysis (B) Information from Accounts, BoFED	2010 assessment did not take account of lack of age analysis. No evidence of change.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	B	Budget formulation and execution based on Chart of Accounts which supports consistent economic, administrative and COFOG functional classifications. Information from Planning and Budget, BoFED and budget documentation (EFY 2006)	No change
PI-6	Comprehensiveness of information included in budget documentation	B	Three of the applicable 7 benchmarks are met	Improvement in transparency
PI-7	Extent of unreported government operations	C+	(i) No known unreported expenditure (A) (ii) Information on grant-funded projects deficient (C) Information from Treasury, BoFED	Not scored in 2010 – no comparability
PI-8	Transparency of inter-governmental fiscal relations	A	(i) 69% of the total grants are unearmarked and allocated on a formula basis. The rest are specific capital grants, which are individually negotiated (B) (ii) Sub-cities get reliable information on their allocations before the start of their detailed budget process (A) (iii) Fiscal data is collected from all sub-cities and consolidated into annual reports within 10 months of the end of the fiscal year (A) Information from City BoFED, Bole Sub-City	No capital grants in 2010, so no comparison possible
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C+	(i) PEs submit fiscal reports to the City Mayor/City Manager at least annually, but a consolidated overview of fiscal risk is missing (C)	No change

PI	Indicator	Scoring	Brief explanation and sources used	Performance change
			(ii) Sub-cities and woredas cannot incur fiscal liabilities (A) Information from the Treasury	
PI-10	Public access to key fiscal information	A	The Government makes available to the public five of the applicable six elements of information (A) Information from BoFED, BoE, BoH and websites	Significant improvement in transparency
C. BUDGET CYCLE				
C (i) Policy-Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	B+	(i) A clear annual budget calendar exists, but ceilings not fixed and may not allow BIs enough time (at least 4 weeks) to meaningfully complete their estimates on time (C) (ii) Budget circular shows ceilings approved by the Cabinet (A) (iii) Budget enacted before the beginning of each year (A) Information from Planning and Budget BoFED, BoH, BoE, AACRA, Bole Sub-City	Deterioration in compliance with budget calendar
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	(i) Forecasts of fiscal aggregates are prepared for three years on a rolling annual basis, and links between multi-year estimates and subsequent budget ceilings are clear. (A) (ii) Debt Sustainability Assessment unnecessary (NA) (iii) Sector strategies are prepared for several sectors but cover capital expenditure only and are inconsistent with aggregate fiscal forecasts (C) (iv) Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates in only major cases (C) Information from Planning and Budget, BoFED and BoE, BoH, AACRA.	Deterioration on dimension (i), and improvement on dimension (iii). No overall change since 2010.
C (ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities	A	(i) Legislation and procedures for most taxes are comprehensive and clear, with limited discretionary powers of the revenue authority (B) (ii) Information on liabilities is readily available to taxpayers (A) (iii) A tax appeals system of transparent administrative procedures is functional (A) Information from ERCA, City Chamber of Commerce and Tax Appeal Commission	Improvement in taxpayer education and appeals system.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	(i) Taxpayers are registered in a complete database with some linkages to trade licensing and company registration systems (B) (ii) Penalties exist but are not always effective due to inconsistent administration (B) (iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan with clear risk assessment criteria (B) Information from ERCA and City Chamber of Commerce	Improvement in registration of taxpayers and in tax audits
PI-15	Effectiveness in collection of tax payments	D+	(i) The average debt collection ratio for the last two years was over 90% (A)	Improvement in dimension (i), no

PI	Indicator	Scoring	Brief explanation and sources used	Performance change
			(ii) All revenue transferred at least weekly to Treasury Account (B) (iii) Revenue receipts reconciled, but no overall reconciliation of arrears (D) Information from ERCA and BoFED Treasury	change in (ii) and (iii). No change overall.
PI-16	Predictability in the availability of funds for commitment of expenditures	C+↑	(i) A cash forecast is prepared for the year and updated quarterly (B) ↑ (ii) BIs are provided reliable information for three months in advance (B) (iii) Significant in-year budget adjustments are frequent, but done after consultation (C) Information from Planning and Budget and Treasury BoFED and sample BIs	Cash management improved but no change in score
PI-17	Recording and management of cash balances, debt and guarantees	A	(i) Debt data are of good quality and complete due to the very small number of loans (A) (ii) Most cash balances are consolidated daily but some remain outside the system (B) (iii) The contracting of loans and issue of guarantees are made against Federal criteria and fiscal targets, and approved by MoFED (A) Information from Treasury BoFED	Improvement in coverage of consolidation
PI-18	Effectiveness of payroll controls	B+	(i) Personnel and payroll data are not directly linked, but payroll changes are fully documented and used to reconcile with the previous month's payroll (B) (ii) Procedures ensure that changes are reflected in payroll database without delay (A) (iii) Authority and basis for payroll changes are clear (B) (iv) Payroll audits cover all personnel (B) Information from HR Directorate, sample BIs, and from Finance Support Process, BoFED	Improvement in payroll audits
PI-19	Transparency, competition and complaints mechanisms in procurement	B	(i) Five of the listed requirements are met (B) (ii) Data indicate 70-80% contracts awarded through open competition (using revised PEFA Framework) (B) (iii) Two of the information elements are made available to the public in a timely manner for all procuring entities (C) (iv) The complaints system meets criteria (i), (ii) and three of the other five criteria (B) Information from PPA, sample BIs and City Chamber of Commerce	No comparison possible due to change in method of assessment
PI-20	Effectiveness of internal controls for non-salary expenditure	B↑	(i) Commitments controlled against remaining uncommitted budget and projected cash availability.. Manual methods used. (B) (ii) Internal controls are comprehensive and generally understood (B↑) (iii) Compliance with rules is fairly high, though there are still many cases of non-compliance (B↑) Information from BoFED Finance and Inspection Departments and CAG	2010 assessment appears over-rated on dimension i; no real change

PI	Indicator	Scoring	Brief explanation and sources used	Performance change
PI-21	Effectiveness of internal audit	C+	(i) Internal audit is functional in most entities and undertakes some systems review (at least 20% of staff time)(C) (ii) Reports are issued regularly and used by all relevant parties (B) (iii) Action is taken by most managers but often with delay (C) Information from Inspection Department BoFED, Internal Audit Units at BoE, BoH and AACRA, and sample audit reports.	No overall change
C (iii) Accounting, Recording and Reporting				
PI-22	Accounts Reconciliations	B	(i) Bank reconciliations done monthly within 4 weeks (B) (ii) Suspense accounts and advances cleared within the year or mostly within 2 months of end of year (B)	No change
PI-23	Availability of information on resources received by service delivery units	A	Routine data collection provides reliable information on all resources received by primary schools and health centers. Information from BoE, BoH and accounts by institution and cost code.	Not scored in 2010
PI-24	Quality and timeliness of in-year budget reports	C+	(i) Classification of data allows direct comparison with the budget, but only at the accrual and payment stages, not at commitment stage (C) (ii) Consolidated reports on the City BIs are prepared monthly and mostly issued within 6 weeks of the end of the month (B) (iii) There are some concerns about data accuracy, which may not always be highlighted in reports, but these do not undermine their basic usefulness (C) Information from Accounts and Treasury BoFED and CAG	No overall change
PI-25	Quality and timeliness of annual financial statements	C+↑	(i) The latest Annual Financial Statements (EFY 2004) include full information on revenue, expenditure, and assets/liabilities (A) (ii) Statements are submitted within ¾ months of the end of year (A) (iii) Reports are presented in consistent format over time with disclosure of accounting standards (C↑) Information from Finance BoFED, published accounts and CAG (C)	No change overall, but significant improvement in dimensions (i) and (ii)
C (iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	D+	(i) Audit covers less than 50% of all expenditure (D) (ii) Last audit report was submitted within 12 months after receipt of financial statements (C) (iii) There is timely response by BIs to audit recommendations and there is systematic follow up (A)	No change overall, but significant improvement in dimension (iii)

PI	Indicator	Scoring	Brief explanation and sources used	Performance change
PI-27	Legislative scrutiny of the annual budget law	D+	(i) The FEDC review covers detailed estimates of revenue and expenditure after they have been finalized by BoFED (C) (ii) Procedures are well-established and respected (B) (iii) The FEDC has less than a month to review the budget proposals (D) (iv) Clear rules allow in-year amendments to the budget without approval of Council, but these allow extensive reallocations (B) Information from Planning and Budget, BoFED and Finance and Economic Development Committee	Apparent deterioration in dimension iii
PI-28	Legislative scrutiny of external audit reports	D+	(i) The financial audit review is completed by May, 10 months after receipt of the CAG report (C) (ii) In-depth hearings take place consistently with responsible officers from entities on whom the CAG has commented (A) (iii) No separate recommendations are made by the PAC (D) Information from Finance and Economic Development Committee and CAG.	2010 dimension. (I) and (iii) seem incorrect for 2010. No real change.
D. Donor Practices				
D-1	Predictability of Direct Budget Support	NA	No direct budget support.	Not applicable
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	(i) Donors do not provide quarterly forecasts of disbursements (D) (ii) Donors do not provide quarterly reports of actual disbursements (D) Information from donors and BoFED Accounts	No change
D-3	Proportion of aid that is managed by use of national procedures	C	National procedures are applied on average to 64% of aid disbursed (C) Information from donors.	Apparent deterioration

Appendix B Persons Seen

Name	Office	Position
Foino Fola	BoFED	Bureau Head
Belay	BoFED	Deputy Bureau Head
Retta Workneh	BoFED	Senior Accountant
Abebaw Negussie	BoFED	Senior FTA/PBS Focal Person
Tewodros Tekie	BoFED	Channel One Program Coordinator
Mebratu Gebre	BoFED	Senior Procurement Specialist
Abdulkadir Redwan	BoFED	Former Plan & Budget Head
Gemeda Berisso	BoFED	Plan Head
Saba Girmay	BoFED	Internal Audit Head
Kedir Hussien	BoFED	Inspection Head
Belaynesh Dereje	BoFED	Budget Department Head
Abiy Bitew	BoFED	Treasury Senior Accountant
Hirut Zewede	BoFED	Treasury Senior Accountant
Sasahuleh Mamo	BoFED	Senior Accountant
Yergalem Eshetu	BoFED	Policy Study & Analysis Sub-Process
Gizachew Girma	BoFED	UNDP Coordinator
Meaza Abebe	BoFED	Procurement & Property Administration Core Process
Abaynesh Gebremedhin	CAG	Auditor General
Hiwet Teka	CAG	Deputy Auditor General
Taffese Wordeffa	CAG	Finance & Performance audit core process
Solomon Tesfaye	AA-PAC	Public Accounts Committee chairperson
GirmaTafese	ERCA	Director for Domestic Branches
Bahru Awel	ERCA	
Tesfaye Mekuria	ERCA	Tax Assessment, Procedure Design and Development Director
Abaynesh Abate	ERCA	Tax Assessment Process & Program Directorate
Birtukan Girma	ERCA	Tax Audit, Procedure & Program Director
Berhane G/libanos	ERCA	Revenue Accounts Adm. directorate
Getu Demise	ERCA	Revenue Accounts Coordinator
Tarekegn Asfaw	AA-TAC	President
Getahun Tesma	AA-TAC	Appeal court expert
Zenebe Ketema	Bole Sub-City OFED	Procurement Process Owner
Ayalew Lakew	Bole Sub-City OFED	Gov't Finance Adm. Core Proc. Owner
Tsehay Haile	Bole Sub-City OFED	Plan & Budget Core Proc. coordinator
Adebebech Worku	Bole Sub-City OFED	Audit Team Leader
Abdela Redi	AACRA	Finance Head
Mihret Simegne	AACRA	Audit Head
Ibrahim Hussien	AACRA	Procurement Delegate
Leol Hailu	AACRA	Planning Delegate
Ahmedin Busser	AACRA	Contract Administration Head

Kasahun Shiferaw	AACRA	Design Team Leader
Fekadu Darie	Housing Construction Project Office	Finance Support Process Head
Yizengaw Yomene	Bureau of Health	Planning & Monitoring Sub-Process Head
Habtamu Getachew	"	Payment and Accounts Head
Dilamo Otores Ferenje	Bureau of Education	Bureau Head
Getachew Regassa	Addis Ababa Chamber of Commerce	Secretary General

Appendix C Documents Seen

Proclamation no. 311/2003 the Addis Ababa City Government Revised Charter

Financial Proclamation no. 16/2009 (replacing no. 16/2003)

City Government of Addis Ababa Financial Administration Regulations no. 39/2011

Addis Negarit Gazeta (2011) Budget Proclamation no. 26/2011

Addis Negarit Gazeta (2012) Audit Proclamation no. 29/2012 (in Amharic)

Strategic plans of BoE, BoH, HDPO and AACRA

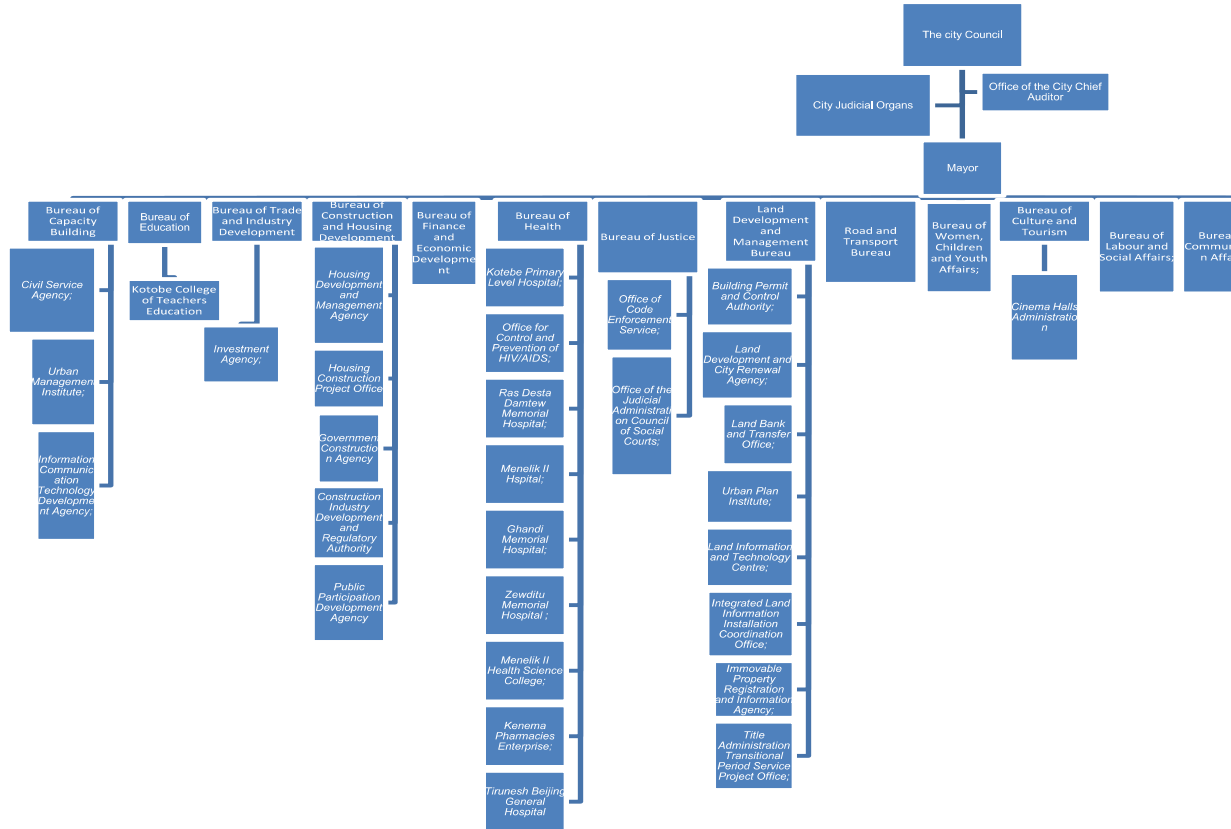
BoFED Population Affairs Coordination (2009) Addis Ababa Population Images, October

BoFED Policy Study and Analysis (2013) Socio-Economic Profile of Addis Ababa for the year 2004 EC/2011/12 GC, May

IPE Global and B&M Management Consultants (2013) Conducting an Assessment and Producing Public Financial Management Institutionalized Training Strategic Action Plan: Addis Ababa City Administration, April

Appendix D City Administration Organisation

Figure D.1 Organization Chart of City Administration



Appendix E PI-1 and PI-2 Calculations

Table E.1 - Fiscal Years Assessed

Year 1 =	FY 2010/11	=EFY 2003
Year 2 =	FY 2011/12	=EFY 2004
Year 3 =	FY 2012/13	=EFY 2005

Table E.2 Data for FY 2010/11 (ETB millions)

		Total budget	Total actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of State	174.0	204.5	136.7	67.8	67.8	49.6%
120	Justice & Legal Affairs	327.5	340.7	257.2	83.5	83.5	32.4%
150	General Service	317.6	284.7	249.5	35.2	35.2	14.1%
210	Agriculture	62.0	39.5	48.7	-9.2	9.2	18.9%
220	Natural Resource	743.8	514.5	584.2	-69.7	69.7	11.9%
230	Trade & Industry	314.7	176.2	247.2	-71.0	71.0	28.7%
260	Transport & Commun	0.0	0.8	0.0	0.8	0.8	#DIV/0!
270	Construction	2,152.2	2,138.7	1,690.5	448.2	448.2	26.5%
310	Education	993.8	798.7	780.6	18.1	18.1	2.3%
330	Culture and Youth	250.0	113.1	196.4	-83.3	83.3	42.4%
340	Health	442.9	339.3	347.9	-8.6	8.6	2.5%
350	Social Affairs	51.9	73.3	40.8	32.5	32.5	79.8%
	Other (mainly subsidy to city bus)	102.5	377.1	80.5	296.6	296.6	368.4%
400	Admin & General	1,457.8	449.4	1,145.1	-695.7	695.7	60.8%
520	Economy	292.4	176.9	229.7	-52.8	52.8	23.0%
530	Social	29.3	30.6	23.0	7.6	7.6	33.0%
	allocated expenditure	7,712.4	6,058.0	6,058.0	0.0	1,980.5	
460	Contingency	618.1	0.0				
	total expenditure	8,330.5	6,058.0				
	overall (PI-1) variance composition (PI-2)						27.3%
	variance						32.7%
	contingency share of budget						0.0%

Table E.3 Data for FY 2011/12 (ETB millions)

		Total budget	Total actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of State	210.6	450.4	159.3	291.1	291.1	182.7%
120	Justice & Legal Affairs	458.9	456.3	347.2	109.1	109.1	31.4%
150	General Service	865.6	785.3	654.9	130.4	130.4	19.9%
210	Agriculture	64.1	47.8	48.5	-0.7	0.7	1.4%
220	Natural Resource	1,492.8	754.0	1,129.4	-375.4	375.4	33.2%
230	Trade & Industry	383.7	302.8	290.3	12.5	12.5	4.3%
260	Transport & Comm'n	93.7	2.8	70.9	-68.1	68.1	96.1%
270	Construction	2,338.0	2,009.3	1,768.8	240.5	240.5	13.6%
310	Education	1,372.9	1,217.7	1,038.7	179.0	179.0	17.2%
330	Culture and Sport	198.4	227.6	150.1	77.5	77.5	51.6%
340	Health	555.7	470.1	420.4	49.7	49.7	11.8%
350	Social Affairs	152.0	123.4	115.0	8.4	8.4	7.3%
	Other (mainly subsidy to city bus)	302.0	308.5	228.5	80.0	80.0	35.0%
510	Admin & General	1,778.0	756.9	1,345.2	-588.3	588.3	43.7%
520	Economy	527.0	277.4	398.7	-121.3	121.3	30.4%

530	Social	68.4	27.3	51.7	-24.4	24.4	47.2%
	allocated expenditure	10,861.8	8,217.6	8,217.6	0.0	2,356.4	
	Contingency	678.2	0.0				
	total expenditure (note 1)	11,540.0	8,217.6				
	overall (PI-1) variance						28.8%
	composition (PI-2) variance						28.7%
	contingency share of budget						0.0%

Table E.4 Data for FY 2012/13 (ETB millions)

		Total budget	Total actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of State	835.0	548.3	682.2	-133.9	133.9	19.6%
120	Justice & Legal Affairs	588.7	573.3	481.0	92.3	92.3	19.2%
150	General Service	1,713.3	447.6	1,399.8	-952.2	952.2	68.0%
210	Agriculture	101.9	68.3	83.3	-15.0	15.0	18.0%
220	Natural Resources	1,985.6	1,202.8	1,622.3	-419.5	419.5	25.9%
230	Trade & Industry	689.9	418.9	563.7	-144.8	144.8	25.7%
260	Transport & Comm'n	340.8	43.0	278.4	-235.4	235.4	84.6%
270	Construction	2,708.5	4,669.8	2,213.0	2,456.8	2,456.8	111.0%
310	Education	1,763.3	1,515.0	1,440.7	74.3	74.3	5.2%
330	Culture and Sport	305.4	164.3	249.5	-85.2	85.2	34.2%
340	Health	1,042.1	767.7	851.4	-83.7	83.7	9.8%
350	Social Affairs	250.8	202.7	204.9	-2.2	2.2	1.1%
400	Other (mainly city bus subsidy)	304.0	313.1	248.4	64.7	64.7	26.1%
	Admin & General Service	1,429.8	906.8	1,168.2	-261.4	261.4	22.4%
520	Economy	1,012.1	420.4	826.9	-406.5	406.5	49.2%
530	Social Service	48.5	91.4	39.6	51.8	51.8	130.7%
	Allocated expenditure	15,119.7	12,353.4	12,353.4	0.0	5,479.9	
	Contingency	686.9	0.0				
	Total expenditure	15,806.6	12,353.4				
	Overall (PI-1) variance						21.8%
	Composition (PI-2) variance						44.4%
	Contingency share of budget						0.0%

Table E.5 - Results Matrix (2010-13)

Year	PI-1	PI-2 (i)	PI-2 (ii)
	Total exp. deviation	Composition variance	Contingency share
FY 2010/11	27.3%	32.7%	0.0%
FY 2011/12	28.8%	28.7%	
FY 2012/13	21.8%	44.4%	
Score for PI-1:			D
Score for PI-2 (i):		D	
Score for PI-2 (ii):		A	D+

Source: BoFED extract from IBEX, expenditure from domestic sources only, Team calculations.

Head 450 for Debt Service is not expenditure and has been omitted.

Accounts for the last year are not audited. Line items do not always add up to totals due to rounding

RE-WORKING OF THE 2010 ASSESSMENT USING THE NEW METHODOLOGY

Table E.6 Data for FY 2006/07 (ETB millions)

		Total budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of State	62.9	61.2	37.5	23.7	23.7	63.1%
120	Justice & Legal Affairs	105.8	118.4	63.1	55.3	55.3	87.6%
150	General Service	97.2	89.1	58.0	31.1	31.1	53.7%
210	Agriculture	36.1	14.2	21.5	-7.3	7.3	34.1%
220	Natural Resource	104.1	213.6	62.1	151.5	151.5	243.9%
230	Trade & Industry	124.8	59.7	74.5	-14.8	14.8	19.8%
310	Education	267.3	246.2	159.5	86.7	86.7	54.4%
330	Culture and Sport	10.8	6.5	6.4	0.1	0.1	0.9%
340	Health	84.7	80.6	50.5	30.1	30.1	59.5%
350	Social Affairs	17.1	14.1	10.2	3.9	3.9	38.2%
	Other (mainly subsidy to city bus)	65.0	53.7	38.8	14.9	14.9	38.5%
510	Admin & General	184.4	62.2	110.0	-47.8	47.8	43.5%
520	Economy	2,852.7	1,405.7	1,701.9	-296.2	296.2	17.4%
530	Social	22.9	7.4	13.7	-6.3	6.3	45.8%
540	Other	361.2	190.6	215.5	-24.9	24.9	11.5%
	Allocated expenditure	4,397.0	2,623.2	2,623.2	0.0	794.5	
	Contingency	440.7	1.5				
	Total expenditure	4,837.7	2,624.7				
	Overall (PI-1) variance						45.7%
	Composition (PI-2) variance						30.3%
	Contingency share of budget						0.0%

Table E.7 Data for FY 2007/08 (ETB millions)

		Total budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of State	91.0	85.8	56.6	29.2	29.2	51.6%
120	Justice & Legal Affairs	156.3	179.9	97.2	82.7	82.7	85.1%
150	General Service	149.8	132.1	93.1	39.0	39.0	41.8%
210	Agriculture	42.9	23.2	26.7	-3.5	3.5	13.0%
220	Natural Resource	180.2	176.1	112.1	64.0	64.0	57.2%
230	Trade & Industry	189.8	61.5	118.0	-56.5	56.5	47.9%
310	Education	381.1	333.5	237.0	96.5	96.5	40.7%
330	Culture and Sport	12.8	10.4	8.0	2.4	2.4	30.7%
340	Health	148.8	110.7	92.5	18.2	18.2	19.6%
350	Social & Civil Affairs	21.7	19.2	13.5	5.7	5.7	42.3%
	Other (mainly subsidy to city bus)	55.0	53.1	34.2	18.9	18.9	55.3%
510	Admin & General	166.0	69.0	103.2	-34.2	34.2	33.2%
520	Economy	4,350.2	2,469.2	2,705.1	-235.9	235.9	8.7%
530	Social	59.0	10.1	36.7	-26.6	26.6	72.5%
	allocated expenditure	6,004.6	3,733.8	3,733.8	0.0	713.3	
	contingency	366.4	0.0				
	total expenditure	6,371.0	3,733.8				
	overall (PI-1) variance						41.4%
	composition (PI-2) variance						19.1%
	contingency share of budget						0.0%

Table E.8 Data for FY 2008/09 (ETB millions)

		Total budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of State	143.6	207.3	103.8	103.5	103.5	99.8%
120	Justice & Legal Affairs	250.6	254.4	181.1	73.3	73.3	40.5%
150	General Service	206.4	277.0	149.1	127.9	127.9	85.7%
210	Agriculture	50.8	29.5	36.7	-7.2	7.2	19.6%
220	Natural Resource	284.1	323.2	205.3	117.9	117.9	57.5%
230	Trade & Industry	311.5	203.6	225.1	-21.5	21.5	9.5%
270	Construction	4,134.6	2,944.2	2,987.4	-43.2	43.2	1.4%
310	Education	430.9	422.2	311.3	110.9	110.9	35.6%
330	Culture and Sport	31.0	44.3	22.4	21.9	21.9	97.8%
340	Health	217.3	44.3	157.0	-112.7	112.7	71.8%
350	Social & Civil Affairs	25.8	155.6	18.6	137.0	137.0	734.7%
400	Other (mainly subsidy to city bus)	60.0	28.4	43.4	-15.0	15.0	34.5%
510	Admin & General	307.6	2.7	222.2	-219.5	219.5	98.8%
520	Economy	971.7	63.7	702.1	-638.4	638.4	90.9%
530	Social	104.9	401.5	75.8	325.7	325.7	429.7%
540	Other	0.0	39.3	0.0	39.3	39.3	#DIV/0!
	Allocated expenditure	7,530.8	5,441.2	5,441.2	0.0	2,114.8	
	Contingency	1,243.3	80.7				
	Total expenditure	8,774.1	5,521.9				
	Overall (PI-1) variance						37.1%
	Composition (PI-2) variance						38.9%
	Contingency share of budget						0.9%

Table E.9 Results Matrix (FY 2006-09)

Year	PI-1 Total exp. deviation	PI-2 (i) Composition variance	PI-2 (ii) Contingency share
2006/07	45.7%	30.3%	0.3%
2007/08	41.4%	19.1%	
2008/09	37.1%	38.9%	
Score for PI-1:			D
Score for PI-2 (i):		D	
Score for PI-2 (ii):		A	D+

Appendix F PI-3 Calculation

Addis Ababa		2003(2010/2011)		2004(2011/2012)		2005(2012/2013)		in million Birr
Codes	Description	Approved Budget	Actual Revenue	Approved Budget	Actual Revenue	Approved Budget	Actual Revenue	
		8,907.9	6,894.6	11,481.4	9,614.4	15,760.1	12,777.5	
1000-1300	Tax Revenue	5,156.4	4,935.3	5,554.2	7,229.1	8,828.9	10,435.6	
1100-1119	Tax on Income, Profit and Capital Gain	3,361.8	3,159.8	3,643.8	4,650.3	5,761.7	6,354.4	
1120-1169	Vaule Added Tax /VAT/	321.8	278.6	24.0	368.3	52.3	470.9	
1170-1199	Value Added Tax On Services	922.3	1,171.6	1,396.8	1,767.9	2,320.9	3,006.1	
1200-1279	Excise, Sales & Service Taxes on Locally Manufactured Goods & TOT	492.2	240.2	379.0	357.1	596.8	468.1	
1290-1299	Stamp Sales and Duty	58.3	85.0	110.6	85.5	97.2	136.1	
1400-1499	Non-Tax Revenue	2,550.2	1,027.2	4,541.8	1,142.3	5,278.6	1,096.2	
1400-1429	Administrative Fees and Charges	177.2	45.4	-	43.9	372.5	51.3	
1430-1459	Sales of Public Goods and Services	125.6	57.6	630.5	67.9	826.6	99.2	
1460-1479	Government Investment Income	2,024.9	659.5	3,911.3	710.6	3,411.8	697.0	
1480-1489	Miscellaneous Revenue	222.5	262.9	-	320.0	667.7	248.7	
1500-1599	Capital Revenue	-	1.7					
1700-1799	Municipality Revenue	1,201.3	932.1	1,385.5	1,242.9	1,652.7	1,245.8	
1700-1719	Municipality Tax Revenue	187.2	165.3	382.5	170.0	246.0	245.3	
1750-1789	Sale of Goods and City Services	625.6	489.4	340.7	743.2	919.8	685.7	
1720-1749/1790-1799	Other municipal Revenues	388.6	277.4	662.3	329.7	486.9	314.8	
	TOTAL	8,907.9	6,894.6	11,481.4	9,614.4	15,760.1	12,777.5	
	Actual / Approved		77.40%		83.74%		81.07%	