Federal Government of Ethiopia

Ministry of Finance and Economic Development

PUBLIC FINANCE MANAGEMENT ASSESSMENT AMHARA REGIONAL GOVERNMENT

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CURRENCY AND EXCHANGE RATES

Currency unit = Ethiopian Birr (ETB)

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

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

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

Abbreviations and Acronyms

ARG	Amhara Regional Government
ANRS	Amhara National Regional State
BOFED	Bureau of Finance and Economic Development
BPR	Business Process Re-engineering
COA	Chart of Accounts
CTA	Central Treasury Account
CBE	Commercial Bank of Ethiopia
DCD	Department of Cooperation and Development
EFY	Ethiopian Fiscal Year
ETB	Ethiopian Birr
EMCP	Expenditure Management and Control Programme
ESDP	Education Sector Development Programme
FINNIDA	Finnish International Development Agency
IBEX	Integrated Budget and Expenditure System
IA	Internal Audit
ID	Inspectorate Department
JBAR	Joint Budget and Aid Review
MEFF	Macroeconomic and Fiscal Framework
NBE	National Bank of Ethiopia
ORAG	Office of Regional Auditor General
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PBS	Protection of Basic Services
PI	Performance Indicator
PSCAP	Public Sector Capacity Building Programme
SIDA	Swedish International Development Agency
TOR	Terms of Reference
TSA	Treasury Single Account
VAT	Value-Added Tax

SUMMARY ASSESSMENT

(i) Integrated Assessment of PFM Performance

This sub-section summarizes Chapter 3 in terms of the six core dimensions of PFM performance and donor practices. The "Credibility of the Budget" core dimension represents the "outcome" core dimension, reflecting the influences of the other five core dimensions plus donor practices (as indicated in the flow chart in page 4 of the PEFA Framework document). The indicator-by-indicator scores are reproduced in the summary table at the end of this section.

.**Credibility of the budget (PIs 1-4)**

As measured under Performance Indicators (PIs) 1-4, the budget appears to lack predictability and therefore credibility, with PI-1 scoring C and PI-2 scoring D. Even though the budget preparation process appears sound (PI-11), there are significant deviations between actual and budgeted expenditures (according to the approved budget) for many of the public bodies. Revenue performance much better (higher) than budgeted for (PI-3) appears to be a reason, though this also suggests issues in revenue forecasting. The measured deviations may overstate unpredictability, as use of the contingency may include transfers to woreda governments and negative deviations may reflect in part advances to contractors that have not been retired and recorded as expenditures. A strong positive factor is the lack of domestic payments arrears and the culture of paying bills on time; indiscipline in paying bills can erode credibility of the budget as the unpaid bills eventually have to be paid off at the possible expense of service delivery programmes.

2. Comprehensiveness and transparency (PIs 5-10 and D2-D3)

The main challenges are to provide more information in the budget documentation submitted to the Regional Council (PI-6), to improve the supply of information to the public on the budget and budget performance (PI-10), and to improve the reporting of extra-budgetary operations (PI-7, D2-D3). Progress in these areas has been made in recent years and continues to be made, particularly in relation to PIs 7, 10 and D2, and there is scope for further progress. Addressing these challenges would help to strengthen the accountability of the executive towards the legislature and the public and thereby to strengthen the incentive to prepare budgets that are executed as budgeted and which provide for the public goods and services that are desired and needed by the public.

3. Policy-based Budgeting:

The main challenge is to develop a medium term perspective in budgeting (PI-12). A stronger medium term perspective, through developing forward spending estimates (perhaps in a programme budgeting framework), including the estimates of the future recurrent costs implied by committed capital expenditures, would support more accurate budgeting for the provision of public services.

4. Predictability and control in budget execution (PIs 13-21)

Strong points are strengthening revenue administration systems, more efficient budget execution and cash management, facilitated by the closure of bank accounts and the introduction of the zero balance accounts held in Commercial Bank of Ethiopia (effectively, an expansion of the Treasury Single Account), and good controls over payroll and non-wage expenditures. The on-going strengthening of the internal audit function will support the continued tightness of internal controls. Challenges relate to a degree of in-year budget unpredictability (reflected in several reallocations between public bodies during the year, as indicated in the C and D ratings for PIs 1-2), intransparency in the amount of tax debts and the success in collecting these, and a degree of intransparency in the procurement system, with perhaps costs of purchasing inputs being higher than necessary.

5. Accounting, recording and reporting (PIs 22-25)

Performance under this core dimension appears good, with further strengthening expected in future years.

6. External Scrutiny and audit (PIs 26-28)

Performance under this core dimension also appears good and continues to strengthen. A strong demand for accountability provides an incentive for better budgeting for the provision of public services that are desired by the public and more effective service delivery, both ultimately enhancing the credibility of the budget.

(ii) Prospects for reform planning and implementation

The PFM reform process has been underway for several years, through the Expenditure Management Control Programme (EMCP) and the Public Sector Capacity Building Programme (PSCAP). The emphasis has been on getting the basics of PFM right in terms of the mechanics of budget preparation, revenue administration, budget execution, internal controls, cash management and accounting and reporting. These mechanics are now more or less in place. Remaining challenges, as recognized by the Government, thus include the strengthening of the linkages between public expenditure and policy objectives (thus MOFED is currently developing a programming/performance budgeting framework) and to further strengthen transparency and accountability.

. Summary of Scores

	Note: Shaded areas represent M2 scoring methodology	Overall	I	ii	iii	Iv
	A. Credibility of the Budget					
PI-1	Aggregate expenditure out-turn compared to original approved budget **M1**	C	C			
PI-2	Composition of expenditure out-turn compared to original approved budget **M1**	D	D			
PI-3	Aggregate revenue out-turn compared to original approved budget **M1**	A	A			
PI-4	Stock and monitoring of expenditure payment arrears **M1**	B+	A	B		
	B. Comprehensiveness and Transparency					
PI-5	Classification of the budget **M1**	B	B			
PI-6	Comprehensiveness of information included in budget documentation **M1**	D	D			
PI-7	Extent of unreported government operations **M1**	B	B	B		
PI-8	Transparency of inter-governmental fiscal relations: **M2**	B+	B	B	A	
PI-9	Oversight of aggregate fiscal risk from other public sector entities **M1**	A	A	A		
PI-10	Public Access to key fiscal information **M1**	C▲	C▲			
	C (i) Policy-Based Budgeting					
PI-11	Orderliness and participation in the annual budget process **M2**	A	A	A	A	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting **M2**	D+	D	NA	C	C
	C (ii) Predictability and Control in Budget Execution					
PI-13	Transparency of taxpayer obligations and liabilities **M2**	A▲	A	B▲	A	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment **M2**	B	B	B	C	
PI-15	Effectiveness in collection of tax payment **M1**	D+▲	NS▲	A	D	
PI-16	Predictability in the availability of funds for commitment of expenditures **M1**	C+	B	A	C	
PI-17	Recording and management of cash balances, debt and guarantees **M2**	B	NA	B	NA	
PI-18	Effectiveness of payroll controls **M1**	B+	B	A	A	B
PI-19	Competition, value for money and controls in procurement **M2**	C	D	C	B	
PI-20	Effectiveness of internal controls for non-salary expenditure **M1**	B	B	B	B	
PI-21	Effectiveness of internal audit **M1**	C+	C	A	C	
	C (iii) Accounting, Recording and Reporting					
PI-22	Timeliness and regularity of accounts reconciliation **M2**	B+	B	A		
PI-23	Availability of information on resources received by service delivery units **M1**	B	B			
PI-24	Quality and timeliness of in-year budget reports **M1**	C+▲	C▲	A	B▲	
PI-25	Quality and timeliness of annual financial statements **M1**	C+	B	B	C	
	C (iv) External Scrutiny and Audit					
PI-26	Scope, nature and follow-up of external audit **M1**	C+▲	B	C▲	B▲	
PI-27	Legislative scrutiny of the annual budget law **M1**	C+	C	C	B	B
PI-28	Legislative scrutiny of external audit reports **M1**	B+	A	B	B	
	D. Donor Practices					
D-1	Predictability of Direct Budget Support **M1**	NA	NA	NA		
D-2	Financial info provided by donors for budget & reporting on project, programme aid **M1**	C	C	C		
D-3	Proportion of aid that is managed by use of national procedures **M1**	D	D			
HLG-1	Predictability of transfers from Federal Government to ARG	A	A			

NA: means Not Applicable, for reasons explained in the text.

1. Introduction

1.1. Objective

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

1.2. Process of preparing the report

A consultancy team of four was contracted to conduct PEFA assessments of the Federal Government, Addis Ababa City Government, and five regions, including Amhara. Two of the consultants (Peter Fairman, international consultant and team leader, and Getachew Gebre, local consultant) conducted the Amhara regional assessment (also Oromia and Southern Nations and Nationalities Peoples' Region assessments). The team visited Amhara Region during 8-12 March. The main contact point was the Bureau of Finance and Economic Development (BOFED) and most of the meetings were held there. The team also met the Office of Regional Auditor General, the Revenue Authority, the Bureau of Education, the Rural Roads Authority, the Regional Council and the Bahirdar Chamber of Commerce.

The first draft of the report was submitted to the EU on 4 April, 2010. Some information gaps remained, and these were mainly filled during the Joint Budget and Aid Review (JBAR), which took place during the week of 12-16 April, and which the team leader attended, and through email contact during the subsequent weeks. A second draft was submitted to EU on 8 July, 2010, along with the second drafts of the reports of the other regions covered by the PEFA exercise and the integrated regional government report that the team leader prepared during June. Detailed comments on the Amhara report were provided by the World Bank on 24 August (the Bank and African Development Bank also provided some general comments on all the reports in early August), and by the Amhara Regional Government and PEFA Secretariat on 13 September.

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

1.3. Scope of the Assessment

The assessment covers the regional bureaus in the Amhara Regional Government (ARG), as well as the Office of the Regional Auditor General (ORAG) and the Amhara Regional Council. Regional bureau expenditure (domestically financed) comprises about 30 percent of consolidated regional bureau and woreda government (abbreviated as Amhara National Regional State – ANRS) expenditure. Under some of the indicators it is not possible to separate out ARG expenditure from ANRS expenditure: PI-5, PI-25 and PI-26. Furthermore, in relation to donor-financed operations, it is not always easy to distinguish donor spending at regional bureau level from spending at woreda government level.

A later study will assess the PFM systems in the lower level woreda governments.

2. Country background information

2.1. Country Economic Situation

Country Context

The Amhara National Regional State is the third largest state, with an estimated area of 157,076.74 square km, located in the northwestern part of Ethiopia. It is bounded by the Afra, Benshangul Gumuz, Oromiya and Tigray regions in the east, southwest, south and north respectively, and Sudan in the northwest. Its population is 15 million, as estimated in 2004. Its economy is based on tourism and agriculture. Its capital is Bahirdar, located on the shores of Lake Tana, a major tourism attraction, known for its very old monasteries and out of which the Blue Nile flows.

The structure of government is similar at all the different levels of government. The regional equivalent of the federal Ministry of Finance and Economic Development (MOFED) is the Bureau of Finance and Economic Development (BOFED). The BOFED, located in Bahirdar, has offices throughout Amhara, known as zonal offices (ZOFEDs).. Similarly, sector ministries at federal level have their equivalents at regional government level in the form of sector bureaus located in Bahirdar and their offices in the zones. Woreda governments form the level of government immediately below the regional government level. The Woreda Office of Finance and Economic Development (WOFED) forms the equivalent of BOFED, while sector offices at woreda level form the equivalent of sector bureaus at regional government level. Amhara has 151 woreda governments, grouped under zonal administrations, and including three special woredas.

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

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

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

2.2 Description of Budgetary Outcomes

Table 1: Fiscal Performance, Amhara National Regional State.

ETB millions	2006/07 Budget	2006/07 Actual	2007/08 Budget	2007/08 Actual	2008/09 Budget	2008/09 Actual
Total Financial Resources	***2650***	***2639***	***3871***	***3961***	***4978***	***5269***
Region's Revenues	405	394	460	550	600	848
Federal Government Subsidy	2082	2082	3320	3320	4139	4189
External Assistance & Loans	163	163	91	91	239	232
Total Expenditures	***2649***	***2575***	***3867***	***3806***	***4978***	***4643***
Recurrent	*2086*	*2141*	*3200*	*3158*	*3743*	*3903*
Admin. & General Services	558	535	1118	822	1069	1140
Economic Services	352	368	424	557	594	709
Social Services	919	1037	1132	1531	1804	1953
Contingency & Others	257	201	526	248	276	101
Capital	*563*	*434*	*667*	*648*	*1235*	*740*
Admin. & General Services	51	34	86	85	303	235
Economic Services	182	102	264	148	648	267
Social Services	129	95	118	219	284	238
Urban Compensation	201	203	199	196		
Balance	*1*	*64*	*4*	*155*	*0*	*626*
Accumulation/Use of Retained Earnings	-1	-64	-4	-155		-626

Source: Tables provided by BOFED, and Budget Proclamations. Note that the proclamations cover ANRS as a whole and do not distinguish between ARG and the woreda governments.

The table indicates surpluses in recent years.

2.3. Legal and Institutional Framework for PFM

Legal framework for PFM

Revenue and Expenditure

Tax System: Tax laws closely follow federal legislation. The regional government shares some taxes with the Federal Government. No revenue raising powers are assigned to woreda governments, but woreda revenue bureaus collect some revenues on behalf of the regional government. The tax system is covered in more detail under PI-13 in Section 3.

Expenditure System: Expenditure is governed by legislation (Financial Administration Law and Procurement Law) and regulations, modeled on federal legislation and regulations.

Internal and External Audit

The legal framework for this is covered under PIs 20, 21 and 26 in Section 3.

Sub-National Governments

The legal framework for this is covered under PI-8 in Section 3.

Institutional Framework for PFM and Key Features

Planning and Budgeting

The framework is described under PIs 11-12.

Budget Execution, Cash and Debt Management, Reporting and Accounting

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

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

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

PI-18 in Chapter 3 discusses budget execution control processes and issues in terms of management of the payroll. PI-17 discusses processes and issues in terms of cash management. PIs 22, 24 and 25 in Section 3 describe the reporting and accounting systems and issues thereof. The institutional framework for internal and external audit is largely covered in the sub-section on the legal framework above, and further elaborated on under PIs 21 and 26 in Chapter 3.

Donor Funding modalities

Donor funding to Amhara is provided in the following ways:

- Through the PBS project: the funds are essentially budget support to the federal government, which is then incorporated into the federal government block grant transfer to regional governments.

- Channel 1: Donor funding for projects/programmes is channeled through MOFED to BOFED, or is provided straight to BOFED, which then allocates the funds to sector bureaus and woredas. Excluding Global Fund (a Channel 2 programme) the bulk of funding for projects/programmes is now provided through this modality, the proportion having increased markedly in recent years.

- Channel 2: Donor funding for projects/programmes is channeled through federal government line ministries to the corresponding sector bureau at regional government level, or is provided straight to the sector bureau.

- Channel 3: Donors (including NGOs) fund projects directly, by-passing both BOFED and sector bureaus.

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3. Assessment of the PFM Systems, Processes and Institutions

3.1. Introduction

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

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

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

An upward arrow (▲) shown against a score indicates: (i) small improvements in PFM performance not yet captured by the indicators; and (ii) reforms implemented to date that have not yet impacted on PFM performance.

3.2. Budget Credibility

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

Assessment of Performance Indicators of Budget Credibility

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

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

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

In the case of Amhara Regional Government (ARG), debt service payments are zero as the stock of debt is zero; the Financial Administration Law does not allow ARG to borrow. Investment expenditure is divided into three categories: domestically financed, externally financed through grant assistance and externally financed through loans.[1] The budget and budget performance tables prepared by ARG clearly distinguish between the three different types of investment expenditure financing, so adding domestically-financed investment expenditure to recurrent expenditure is straightforward.

Annex A shows the original budgets for the ARG bureaus (including the zonal administrations), as approved by the Amhara Regional Council, for 2006/07, 2007/08 and 2008/09 and the actual outturns for these years. The ARG's financial statements for 2008/09 are still in the process of being audited.[2] Total primary expenditure excludes fiscal transfers to woreda governments from ARG; as deviations of actual transfers from budgeted transfers impact on the predictability of the woreda budget rather than the regional bureau budget; in practice, however, actual transfers are very close to budgeted transfers.[3] Most of the transfers are block grants, but they also include a transfer to urban administrations to enable them to pay compensation to landowners whose land is being expropriated by government (code 416 – Compensation – in the budget classification system).

Table 2 is extracted from Annex A and shows the aggregate deviation (in absolute terms) in terms of percentage of the approved budget.

[1] It should be noted that externally-financed investment expenditure may include recurrent expenditure elements due to the nature of some projects. The justification for excluding such expenditure from aggregate expenditure for the purposes of calculating PI-1 and PI-2 still holds, however, as ARG still has less control over this type of expenditure than its own expenditure.
[22] The years shown correspond to Ethiopian Fiscal Years (EFY) 1999, 2000 and 2001.
[3] Fiscal transfers to woreda governments from ARG comprise about 60 percent of ARG expenditures (primary, as defined above, plus transfers)

Table 1: ARG Aggregate Expenditure Outturn and Approved Budget 1/

ETB millions	2006/07 Budget	2006/07 Outturn	2007/08 Budget	2007/08 Outturn	2008/09 Budget	2008/09 Estimate
Total Primary Expenditure **2**/	626	674	956	986	1487	1183
Deviation (%)	**7.7%**		**3.2%**		**-20.5%**	

1/ Years correspond to EFYs 1999-2001.
2/ Defined as total recurrent expenditure (excluding ARG fiscal transfers to woreda governments) less interest payments (which, in any case, are zero) plus domestically-financed investment expenditure.

Source: ARG BOFED

Table 2 indicates significant aggregate deviation in 2007/08 and 2008/09, with actual expenditure sharply lower than budgeted expenditure. The reasons are unclear as revenue collection sharply exceeded budgeted revenues in these two years (PI-3).

Score	Minimum Requirements	Justification	Information Sources
C	i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure	The deviations (in absolute terms) were 7.7%, 3.2% and 20.5% in 2006/07, 2007/08 and 2008/09 respectively.	ARG BOFED. Tables generated from the IBEX system.

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

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

The composition of budgeted and reported expenditure by administrative agency is shown in detail in Annex A for 2006/07-2008/09. Table 3 shows the measurement of PI-2, extracted from Annex A. [4][5]

[4] The deviations are explicitly shown for the largest 20 bureaus/offices in compliance with the PEFA Framework methodology. The deviations for the other 22 bureaus/offices are aggregated together as the 21st item in the table. The scores would likely differ if the extent of disaggregation was different (i.e. fewer or more than 20 bureaus/offices explicitly shown).

[5] It should be noted that PI-2 in the PEFA Framework document is to be revised to take into account methodological issues that have arisen, particularly in the case when nearly all deviations have the same sign. This is not the case, however, for ARG and a revised methodology would be unlikely to result in different scores.

Table 2: Expenditure Composition Variance in Excess of Total Expenditure Deviation

Year	For PI-1 Total expenditure deviation	Composition expenditure variance	For PI-2 Variance > total deviation
2006/07	7.7 %	25.9 %	18.2 %
2007/08	3.2 %	38.4 %	35.2 %
2008/09	20.5 %	32.1%	11.6 %

Source: ARG BOFED.

Deviations, both positive and negative, tend to be significant. The larger Bureaus/offices that spend more than their approved budget in each of the three years are: Prison Administration, Police Commission, Technical and Vocational Education College, Agriculture Research Institute, Water Resources Development Office, and Regional Council. The larger bureaus/offices that spend less than their approved budgets in each of the three years are: Agriculture and Rural Development, Finance and Economic Development (BOFED), and Auditor General.

Apart from transfers from bureaus/offices (those with negative deviations) to other bureaus/offices (with positive deviations), the contingency item (expenditure code 6415) helps to finance positive deviations; the approved budget for the contingency amounted to ETB 75 million in 2007/08 and 2008/09, representing 4 percent of total primary expenditure.

The resulting score is shown below.

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

3.2.3. PI-3: Aggregate revenue out-turn compared to original approved budget

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based on that forecast. A comparison of budgeted and actual revenue provides an indication of the quality of revenue forecasting.

The macro-fiscal department in the ARG BOFED, in consultation with the Revenue Bureau (that was separated from BOFED in 2001/02) is responsible for revenue forecasting, using, in part, the Federal Government's projections for inflation and real GDP growth.

Table 4 summarises revenue performance at regional bureau level. Direct taxes comprise about two-thirds of total revenue. Annex 2 contains details. Actual revenue sharply exceeded budgeted revenue in 2007/08 and 2008/09 even with a sharp increase in budgeted tax revenues in 2008/09 (due to projected strengthened direct tax administration and the introduction of a 15 percent VAT). It is unclear the extent to which the large forecast errors reflect faulty forecasting methodology or inherent difficulties in making accurate projections of the underlying economic base variables.

Table 3: Revenue Performance

ETB million	2006/07 Budget	2006/07 Outturn	Diff.	2007/08 Budget	2007/08 Outturn	Diff.	2008/09 Budget	2008/09 Outturn	Diff.
Tax revenue	**258**	**287**	**10.9%**	**249**	**381**	**52.8%**	**473**	**670**	**41.5%**
Direct taxes (personal income, profits, cap. gains)	232	250	7.9%	220	353	60.4%	402	583	45.1%
Indirect taxes (excise, VAT, turnover, sales)	27	37	37.0%	29	28	-3.9%	72	87	21.4
Non-tax revenue (recurrent & capital)	**146**	**108**	**-26.5%**	**196**	**169**	**-13.6%**	**127**	**178**	**40.5%**
TOTAL REVENUE	**405**	**394**	**-2.6%**	**445**	**550**	**23.6%**	**600**	**848**	**41.3%**

Source: ARG BOFED.
Note: This indicator has been assessed on a consolidated regional bureau plus woreda basis, rather than on a regional bureau basis. This is because the regional bureau approved budget is not recorded in IBEX, only the ANRS approved budget. This is not an issue as the woreda governments do not earn their own revenues, but share regional government revenues.

Score	Minimum Requirements	Justification
A	i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.	Taken from BOFED's IBEX reports.

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

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

A strong culture of paying bills on time (i.e. before they become overdue) is apparent in Ethiopia, at both federal and regional level (at least in the case of the regions covered by the team), in marked contrast to some other African countries. All wages and salaries are paid on the 25th of every month and invoices submitted by suppliers of goods and services are paid within a few days (providing sufficient supporting documentation is provided, for example, signed delivery receipts).

At the end of the financial year, it may be the case that invoices were received too late to be processed by year-end or have not yet been submitted, though the goods and services have been delivered. In this case, a "grace period" of 30 days is formally provided (Code 5001 in the Chart of Accounts), during which time the invoices are paid. If they are not paid by the end of the grace period they are deemed to be in arrears (i.e. overdue payments). As indicated in the trial balances for ARG for 2008/09, grace period payables at the end of 2008/9 amounted to ETB 13.8 million, representing 1.1 percent of regional bureau 2008/09 expenditure. The trial balances are shown on a consolidated regional/woreda government basis (i.e. the figure includes woreda government grace period payables), so this proportion is probably lower in terms of regional bureau grace period payables alone. Some grace period payables may be unpaid after 30 days, but this is the case only in the unlikely event that suppliers have not yet submitted their invoices, even though they had already delivered the goods and services prior to the end of the financial year, or if there is a dispute over whether the delivered goods and services met the contractual requirements; if the dispute goes to court, the unpaid grace period payables will show up in the trial balances of future months.

Apart from the grace period payables, the trial balances contains other types of accounts payables, as coded in the Chart of Accounts (revised in 2004 to incorporate modified cash accounting): sundry creditors (code 5002), pension contributions payable (code 5003), salary payable (code 5004), other payroll deductions (code 5005) and withholding tax payable (code 5006). Accounts payables in these other categories amounted to ETB 169.7 million at the end of 2008/09 (14 percent of ARG primary expenditure). The system does not, however, permit the reporting of the age profile of these payables in the IBEX system (although the source records would contain the data). In the absence of an age profile, it is not possible to make inferences about accumulation of arrears by comparing the stock of accounts payables at the end of a month with that at the end of the previous month (e.g. it is possible that all accounts payable at the end of the previous month were paid during the current month, and that the accounts payables at the end of the current month are all "new").

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

Score	Minimum Requirements	Justification	Information sources
B+ (M1)			
A	i) The stock of arrears is low (i.e. is below 2 percent of total expenditure)	The ARG has a culture of paying accounts payables on time. Regional bureau and woreda government grace period payables (COA code 5001) at the end of 2008/09 amounted to 1.1 percent of total domestically financed regional bureau expenditure and this proportion is likely lower for regional bureau grace period payables alone. With most grace period payables paid off by the end of the 30 days grace, the proportion outstanding at the end of the 30 days (and are thus in arrears) would be lower.	- Meetings with head of BOFED Financial Administration Department and end-2008/09 trial balance sheets provided by him.
B	(ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.	Arrears are only defined in terms of the grace period payables (COA code 5001) that remain unpaid at the end of the 30 day grace period. The grace period relates to payments due for goods and services received before the end of the year but not yet paid for (perhaps because the invoice has not yet been received or there is a contractual dispute). The modified cash accounting system, associated double entry book-keeping system and the roll-out of IBEX to regional bureaus during 2008/09 and 2009/10 have strengthened the reliability and timeliness of data on grace period payables. The accounting system does not as yet permit the age profiling of accounts payables other than the grace period payables. But these payables are usually paid on time, due to the culture of compliance with regulations and thus ad-hoc periodic assessments of the stock of arrears are not considered necessary by BOFED..	-- End-2008/09 trial balance sheets and meetings with BOFED Financial Administration Department.

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3.3. Comprehensiveness and transparency

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

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

3.3.1. PI-5: Classification of budget

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

The budget classification system at regional level is exactly the same as at the Federal level (the Federal Government budget classification system is described in the Federal Budget Manual, 2007, and the Federal Chart of Accounts manual, May 2007), and so the score is the same as in the Federal PEFA assessment taking place at the same time as the regional government assessments. The budget classification system at Federal level is on an administrative basis grouped under three functions (Administrative Services (100), Economic Services (200) and Social Services (300)), and, under each function, by sub-function (e.g. code 210 represents the sub-function of Agriculture and Natural Resources under the Economic Services function and code 211 represents the Bureau of Agriculture and Rural Development under this sub-function). The economic classification system (e.g. personnel emoluments) is shown under each public body (and by sub-agency within each public body where relevant). The budget classification system includes programme and sub-programme codes, though these are not yet used, as programme budgeting has not yet been adopted.

The budget classification system does not correspond exactly to COFOG standards, but broadly meets GFS standards (in terms of economic classification). A bridging table matching MOFED budget codes to COFOG has not yet been developed, although the IBEX system includes an application that would permit bridging; although the functional codes and sub-functional codes differ from COFOG, the intent of public spending is indicated in the codes and mapping to COFOG functions is clearly possible. Thus at least a B rating is warranted. An A rating (mapping to COFOG sub-functions) may even be possible in principle, but to determine this would have required the assessment team to review the IBEX application and there was not enough time to do this. [6]

[6] The budget classification system is described in the Federal Government Budget Manual, adopted in 2007. This was prepared with the support of technical assistance provided by Harvard University through the donor-supported Decentralisation Support Activity project. The issue of compatibility with COFOG and the development of an application under IBEX that could generate a bridging table is discussed in paragraph 3.9.2 of the manual.

Score	Minimum Requirements	Justification	Information Sources
B	i) The 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.	The budget classification system (as described in the Federal Government's budget manual and Chart of Accounts manual) is on an administrative and, under each administrative unit, on an economic classification basis, with administrative units grouped under three functions (e.g. Social Services), and, within each function, under sub-functions (e.g. Education). A bridging table has not yet been developed to match the functional and sub-functional codes with COFOG, but the the codes currently in use clearly reflect the intent of public expenditure. In response to the 2001 GFS manual, MOFED, with technical assistance support from donors, developed an application under IBEX a few years ago that would facilitate the preparing of a bridging table. An A rating may be justified, but there was not enough time for the team to review the application.	--Federal Budget Manual, January 2007 -- Federal Accounting System Manual, Volume 2, Chart of Accounts, May 2007.

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

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

The budget documents submitted by BOFED to the Amhara Regional Council consist of the the draft budget proclamation. The detailed budget estimate document, which includes expenditure by economic classification under each sub-agency falling under a public body, is not submitted. ARG does not consider exchange rate projections as being relevant for them. The macro-fiscal framework tends to follow the Federal framework, as human resource capacity constraints have precluded the ARG making its own estimates of these parameters (the BOFED website indicates that ARG had its own macro-fiscal framework until 2004/05, including estimates of regional GDP).

The GFS format of presenting the summary fiscal picture is followed. ARG has no debt liabilities and is not allowed to borrow, so the issue of the correct accounting treatment of debt amortization does not arise (it should appear 'below-the-line' as a negative financing item, rather than as an expenditure item "above-the-line"). The revenue estimates may include savings from the current budget year (excess of revenue and grants inflows over expenditures), which is contrary to the GFS treatment, which classifies the use of such savings as a 'below-the-line' financing item. In practice, however, any impending surplus tends to be spent during the current financial year through a supplementary budget. [7]

During the budget preparation process, proposals for "new" expenditure initiatives (resulting in new public services or expanded levels of services currently being provided) require justification and, as part of this, projections of the future recurrent costs associated with

[7] At first sight, it may seem inconsistent with GFS to show external loans as "above-the-line" rather than as financing items 'below-the-line", but the loans are the liability of the Federal Government, not the regional government; the funds are transferred to the regional governments.

proposed new investments. But the budget documentation submitted to the Regional Council does not mention new initiatives.

This indicator is assessed in terms of the following elements:

No.	Item	Available	Source
1	Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	No	The macro-fiscal framework is presented to the Regional Cabinet at the start of the budget preparation cycle, but not to the Regional Council. The exchange rate assumptions are not provided, mainly because most purchases of inputs are specified in local currency units.
2	Fiscal deficit, defined according to GFS or other internationally recognized standard	No	In practice, there is no deficit as ARG does not borrow and any savings accrued during the current year tends to be spent by the end of the year.
3	Deficit financing, describing anticipated composition	No	Use of retained earnings to fund deficit not explicitly shown..
4	Debt stock, including details at least for the beginning of the current year	Not applicable	ARG does not borrow.
5	Financial Assets, including details at least for the beginning of the current year in a timely manner.	No	Financial assets consist of cash on hand and in the bank (COA codes 4101, 4103 and 4105), and accounts receivables (COA codes 4200-4299). Though reported on in the trial balance sheets, they are not mentioned in the budget documentation.
6	Prior year's budget outturn, presented in the same format as the budget proposal	No	
7	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	No	
8	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year	No	
9	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No	Budget preparation process covers this issue but is not covered in the Budget Speech.

Score	Minimum Requirements	Justification
D	i) Recent budget documentation fulfils none out of the eight applicable benchmarks.	As indicated above.

3.3.3. PI-7: Extent of unreported government operations

Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public should cover all budgetary and extra-budgetary activities of central government to allow a complete picture of central government revenue, expenditures across all categories, and financing. This will be the case if (i) extra-budgetary operations (regional government activities which are not included in the annual budget law, such as those funded through extra-budgetary funds), are insignificant or if any significant expenditures on extra-budgetary activities are included in fiscal reports, and if (ii) activities included in the budget but managed outside the government's budget management and accounting system (mainly donor funded projects) are insignificant or included in government fiscal reporting.

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

Potential extra-budgetary operations (EBOs, excluding those of government-owned commercial enterprises, which fall outside the scope of this indicator) include the Food Security and Population Safety Net programs (PNSP), the Public Sector Capacity Building Programme (PSCAP), various donor-supported programs/projects, including the Water, Sanitation and Hygiene programme (WaSH)), the Roads Fund, and the Global Fund for HIV, Malaria and Tuberculosis (GF). The first three of these are federal government programmes being implemented at regional government level. They appear in the federal government budgets and are reported on at federal government level; the regional government in effect is acting as a de-concentrated arm of the federal government.[8] The other programmes are either "Channel 1" programmes that represent channeling of external funds from MOFED to BOFED or "Channel 2" programmes that represent channeling of external funds from sector line ministries to sector bureaus. The Channel 1 programmes appear in the regional government budgets and funding and expenditure are reported on accordingly. The Channel 2 programmes are for the most part included in budget estimates but actual funding and expenditure are not necessarily reported.

Although much of the funding for these programmes/projects comes from external sources channeled through the federal government, in terms of assessing PI-7, they are counted here as domestic funds at regional government level.

The Roads Fund and the Global Fund are Channel 2 programmes. Even if they are reported on at Federal Government level (not necessarily the case, particularly for the Global Fund), they should still be reported on by regional governments if they have implementing responsibility.

The Roads Fund is administered by the Rural Roads Authority (RRA) . The assessment team met RRA and was shown a six monthly report on operations (revenues, expenditures – committed and balance not yet committed), that is presented to the Regional Cabinet (which presents to the Regional Council), and copied to BOFED. Attempts to meet the Health Bureau (through which the Global Fund is administered) were unsuccessful. However, the

[8] The Safety Net fund and PSCAP are administered by BOFED on behalf of the Federal Government. , which submits reports to the Regional Cabinet. The Food Security Fund is administered by the Bureau of Agriculture and Rural Development on behalf of the Federal Government and it submits quarterly and annual comprehensive reports to BOFED. . The WaSH programme is budgeted and reported on (though not in IBEX) at regional government level and is administered by BOFED..

planned and actual expenditures for 2007/08 are shown on the BOFED web site, as part of a table that reports planned and actual expenditure of donor-funded programmes/projects. The figures for 2008/09 are not yet on the website, but BOFED provided this information to the the team at the workshop in September (the sums are substantial, representing nearly 40 percent of known donor-funded programmes/projects in 2007/08).

Unreported EBOs in some countries are reflected in the spending of non-tax revenues (NTR) collected by government agencies that are not budgeted for and not reported on. This is not the case at either the Federal or regional levels of government in Ethiopia. Some government public bodies (particularly in the health sector) are permitted by law to collect revenues and to spend a portion of these, as long as the proposed spending is reflected in the approved budget. Revenues collected in excess of the approved spending thereof must be surrendered to ARG's treasury account. A comprehensive receipting system (with receipts in triplicate at minimum – one copy for the client paying the revenue, one copy for the government agency, and one copy for the Treasury) helps guard against spending of NTR collected by a government agency that is not covered in the approved budget and against the non-submission to the Treasury of NTR collected in excess of the amount that can legally be spent.

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

This dimension refers only to donor-funded projects in the case where there is a direct agreement between the donor and ARG (i.e. the funds are not channeled through the federal government). [9]Channel One funds represent monies channeled by the donor agency directly through BOFED and the receipt and spending thereof are captured in the approved budget and budget execution reports (COA codes 2000-2999 under the External Assistance category). Channel Two funds represent monies transferred by donors directly to sector bureaus, which are in charge of the financial management of the projects. The receipt and spending may be captured in the approved budget but may not be captured in budget performance reports (as the sector bureaus do not report to BOFED) and are therefore unreported EBOs.. Channel Three funds represent donor operations (mainly NGO operations, where the NGO has a contractual agreement with a sector bureau, though NGOs tend to operate more at woreda government levels) that do not use the sector bureau PFM systems at all. BOFED considers Channel 3 funding to be minimal. Under NGO Coordination Guidelines, NGOs are supposed to submit periodic reports on their activities to sector bureaus.

According to BOFED, an increasing proportion of donor assistance is being provided through Channel One. For example, UN Executing Agencies (UNDP, UNICEF, UNFPA, WHO) now channel their funding through Channel One. SIDA and FINNIDA, major donors in Amhara, have, for the past two years, been providing most of their assistance through Channel 1 rather than through Channel 2.[10] As Channel 2 actual funding and expenditure tends not to be reported by sector bureaus to BOFED, it is difficult to know exactly the proportion of Channel One funding to total donor funding. The Financial Administration Department in

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

[10] SIDA's main project is the SIDA-Amhara Rural Development Program. FINNIDA's main project is the Rural Water Supply Program.

BOFED says it is over 90 percent, but the Multilateral and Bilateral Unit in BOFED says it is about 60 percent.

Score	Minimum Requirements	Justification	Information Sources
B (M1)			
B	i) The level of unreported extra-budgetary spending (other than donor-financed projects) constitutes 1-5 % of total expenditure.	Extra-budgetary spending mainly relates to spending of donor funds that are channeled to regional governments through MOFED.and sector line ministries. In terms of the numbers of programmes/projects funded through these arrangements, nearly all come through Channel 1 (MOFED to BOFEDs); planned and actual expenditures are reported on (though planned expenditures are shown in the approved budget, actual expenditures may not be fully reported on in the same detail as treasury-funded expenditures, as the IBEX classification codes are not always used). Planned and actual funding and expenditure are also reported on in the case of two large (in monetary terms) Channel 2-funded programmes, the Global Fund and Roads Fund, The reports are included in a table on planned and actual donor funding that BOFED prepares each year (the 2007/08 report is on the BOFED website)..	- Aid Coordination Unit, BOFED; -- BOFED web-site ("Donors' profile, 2006/07" and "Financial Performance of multilateral and bilateral funded projects/programs, 2007/08", - Head, Financial Administration and Property Management Department.
B	(ii) Complete income/expenditure information is included in fiscal reports for all loan-financed projects and at least 50% (by value) of grant-financed projects.	An increasing proportion of direct donor assistance to ARG is being provided through the Channel One modality and is reflected in the approved budget. Though estimates vary within BOFED (as Channel 2 funding tends not to be reported on), the proportion is at least 50 percent. ARG does not borrow funds.	-- Ditto.

3.3.4. PI-8: Transparency of Inter-Governmental Fiscal Relations

This indicator assesses the transparency of inter-governmental fiscal relations against the following dimensions: (i) transparency and objectivity in the horizontal allocation of fiscal transfers among sub-national governments; (ii) timeliness of reliable information to sub-national governments on their allocation; and (iii) extent of consolidation of fiscal data for general government according to sectoral strategies.

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

The horizontal allocation of the block grant from the Federal Government to regional governments until recently was based on three criteria: (i) population; (ii) revenue generating capacity; and (iii) development status. With effect from the beginning of 2009/10, this formula is now being phased out over a period of four years (25:75 in first year to 100% in fourth year) in favour of a new formula that gives more explicit emphasis to the expenditure needs of each sector in order to better realize the fiscal equalization purpose of the fiscal transfer formula; the population and revenue generating capacity criteria remain.

In practice, ARG did not fully use the Federal Government block grant formula, as it considered the same formula should not be used to allocate resources to the 150 woredas in Amhara region. Instead, for recurrent expenditure requirements of each woreda, it used a unit cost approach through estimating the cost of providing a service to a beneficiary --for example, the cost of educating one student – and then multiplying by the number of beneficiaries in order to arrive at the total cost of providing services and then determining the amount of transfer, taking into account the revenue generating capacity of a woreda. Capital expenditure requirements per woreda were determined on a needs basis with an approximate reference to norms (e.g. pupil/classroom ratio, health centres per 25,000 people). In line with the phased introduction of the new Federal Government formula, ARG will phase out the formula it currently uses over the next four years.

The overall size of the block grant from ARG to each woreda is also determined by the amount and type of assistance being provided by donors in each woreda through already existing project agreements (usually multi-year). In order not to unduly favour woredas that receive relatively larger amounts of assistance from donors (either directly or through channeling through federal/regional governments), the ARG partially offsets its block grant contribution according to the same "offsetting" principles that the federal government follows in allocating its block grant between the regions. The degree of offset is 15 percent in order to prevent hardship to woredas if the donor assistance is delayed).[11]

The transparency and objectivity issues with the allocation formulae (both the old and new ones) are: (i) Estimation by the regional revenue bureau of revenue generating capacity per woreda may be prone to subjective or arbitrary estimates if the underlying data – per capita incomes – are not complete or are subject to measurement error and therefore open to dispute, particularly as, service standards and norms are not binding; (ii) population estimates/numbers of projected service beneficiaries and expenditure needs per sector may also be subject to measurement/forecast error and therefore open to dispute; and (iii) the criteria used for allowing donor-funded projects to be implemented directly with woreda governments may have been less than transparent and objective; however, BOFED indicated to the assessment team that the bulk of the funding that goes to woreda governments is in fact through the block grant.

In addition to the block grant, ARG provides a Specific Purpose Grant for cities and towns (ETB 200 million this year).

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

Most of the block grant to woreda governments from ARG is funded through the Federal Government block grant to ARG. However, ARG only knows for certain how much block grant it will receive from the Federal Government after the Parliament approves the draft Federal Government budget at the end of June (i.e. just before the end of the fiscal year). At the start of the budget preparation cycle, MOFED provides indications to the regional governments on the likely horizontal allocation of the block grant and, on this basis, regional

[11] A relatively new donor-supported project being implemented in eight woredas is the Local Investment Grant (LIG), funded mainly by the World Bank.

governments can start preparing their annual work plans (PI-11) and can notify woreda governments in turn as to how much block grant funding they will likely receive.

It is possible, according to BOFED, that the final allocation approved by the Parliament may be significantly different from the initial indications provided by MOFED. In the same vein, the final horizontal allocation of the block grant for woredas approved by the Regional Council may be significantly different from the initial indications provided by BOFED. Thus adjustments may be necessary prior to the finalization by woredas of their budget proposals.

(iii) Extent of consolidation of fiscal data

As explained in the text box below.

Score	Minimum Requirements	Justification	Information Sources
B + (M2)			
B	(i) The horizontal allocation of most transfers from regional governments to lower level governments (at least 50 percent of transfers) is determined by transparent and rules based systems.	The block grant from ARG to woreda governments in Amhara comprises the bulk of transfers to woredas and is determined in relation to a formula (currently a mix of the old – 75% -- and new – 25%--formulae, with the proportion of the new rising to 100% after 4 years). The formulae are transparent, but the required data underpinning the formulae may not be fully available, however, or may be open to different interpretations An A rating would seem too high and a C rating too low.	--Meeting with acting BOFED head. -- World Bank document on second Protection of Basic Services (PBS) project (April 2009, on World Bank website).
B	(ii) Woreda governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.	The rating cannot be A, as the block grant allocation from the Federal Government to the regional government is not known with certainty until Parliament approves the Federal government budget at the end of June. There is still time for woreda governments to adjust their initial budget proposals.	--Meeting with Acting BOFED head.
A	(iii) Fiscal information (ex ante and ex-post) that is consistent with regional government fiscal reporting is collected for at least 90% of woreda government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.	The budget preparation and reporting systems are the same at woreda level and regional level and (as noted under PI-5) is based on sectoral/functional categories. BOFED produces a consolidated regional/woreda government report on the estimated (unaudited) budget outturn within 10 months of the end of the fiscal year. The manual nature of PFM systems at woreda level holds up the preparation of reports.	-- Budget classification system. -- Consolidated end-year budget performance tables prepared by BOFED.

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

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

(i) Extent of central government monitoring of financial position of public enterprises

ARG owns four public enterprises: Waterworks Construction, Housing Agency, Water Transport Company (Lake Tana), and Design and Supervision Enterprise (with focus on irrigation). The enterprises generate their own revenue, can borrow from banks and do not receive any government subsidy. The only government financial contribution was in the form of initial capital. They do not pay dividends to ARG but pay taxes.

In terms of governance, the enterprises are accountable to governing boards, consisting of senior ARG officials. Each Board approves annual work plans and evaluates quarterly and annual performance reports and audited annual financial statements submitted to it. The Planning Unit in BOFED consolidates the reports of public enterprises submitted to it and submits to the President (who is head of the Regional Cabinet).

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

Woreda governments are not allowed to borrow. Financial Regulations prohibit over committing of expenditure (in terms of the approved budget) and are enforced, thus payments arrears through over-commitment are not possible. Nevertheless, woreda governments in principle can pose a fiscal risk to the regional government in the event of resource shortfalls, perhaps because budgeted external assistance does not arrive in time. BOFED informed the team that it may use the Contingency item (ETB 75 million in 2008/09, representing 4.5 percent of the approved budget) in the budget (public body code 462) to help finance woreda government resource shortfalls.

The zonal administrations, which fall under the regional bureaus, monitor the financial situation of the woreda governments within the zone – through the reports that woredas are required to submit. The Single Pool system, under which woreda finance and economic development bureaus (WOFED, the woreda counterpart of BOFED) tend to be in charge of the PFM systems of the woreda sector bureaus, for example, for procurement and payments) also facilitates such monitoring.

Score	Minimum Requirements	Justification	Information Sources
A (M1)			
A	(i) All major AGAs/PEs submit fiscal reports to regional governments at least six monthly , as well as annual audited accounts, and the regional government consolidates fiscal risk issues into a	There are only four such enterprises, none of which receive subsidies. Keeping track of their fiscal position is relatively straight forward.	--Information provided by BOFED Financial Administration Department and the BOFED Planning Unit, which receives the reports.

Score	Minimum Requirements	Justification	Information Sources
	report at least annually.		
A	(ii) The net fiscal position of woreda governments is monitored at least annually for all governments and the regional government consolidates overall fiscal risk into annual reports.	Woreda governments are not permitted to borrow or enter into spending commitments that are not covered by the approved budget. Nevertheless, they can incur unexpected resource shortfalls which the regional government may try to offset, for example through use of its contingency fund. The in-year reporting system combined with the Single Pool System enables zone administrations (that fall under regional bureaus) to keep track of the financial position of all woreda governments, though this may not necessarily be formalized into a consolidated overall fiscal risk report.	-- Information provided by BOFED Financial Administration Department.

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

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

Considerable progress has been made over the last few years in providing the public with key fiscal information. However, while coming close to meeting most of the six benchmarks listed below, they do not meet them yet.

Elements of information for public access	Availability and means
Annual budget documentation when submitted to legislature	*Not met.* The budget documentation is not available until the draft budget proclamation has been approved by the Regional Council, at which point it is published. . The main elements are aired on radio. The approved proclamations for EFY 1998 and 1999 were posted on the BOFED's website (www.amhara.gov.et), but the approved proclamations for EFY 2000, 2001 and 2002 have yet to be posted, The Budget Speech is publicized on radio and TV, but not in document form and details on the proposed budget are not provided. Interested members of the public are allowed to watch the debate on the draft budget.
In-year budget execution reports within one month of their completion.	*Not met*: BOFED occasionally places a quarterly budget execution report on its website (www.amharabofed.gov.et). The last statement available at present is for the first quarter of EFY 2000 (2007/08), released two months after the end of the quarter. The format is easy to understand (data are shown by public body at regional, woreda and consolidated level) but only domestically financed capital expenditure is shown and the outturn figures are shown in relation to the adjusted budget, as opposed to the approved budget. BOFED has also placed its annual budget execution report on its website for 2006/07 and 2007/08, about 2 months from the end of the fiscal year. The report for 2008/09 has yet to appear, however. The reports cover the whole regional state, not just the regional bureaus; the information covers revenue, approved budgeted expenditure, the adjusted budget and the outturn. BOFED also places the details of monthly block grant transfers to woreda governments on its web site every month (though, not since March 2010). In any case, much of the population does not have access to the internet, which, furthermore, tends to be time consuming to use.
Year-end financial statements within 6 months of completed audit.	*Not met.* Audited year-end financial statements are not published, either by BOFED or by ORAG. However, year-end revenue and expenditure performance statements are posted on public notice boards and disseminated through the press, radio and TV.
Availability of external audit reports to the public.	*Met:* Publication is permitted under the law. ORAG claims audit reports are posted on its website, though at present the website appears not to be functioning properly. Contents of the audit reports are disseminated on the radio.
Contract awards with value above US$ 100,000 approx. are published at least	*Not met*: Contract awards are not published.

Elements of information for public access	Availability and means
quarterly.	
Availability to public of information on resources for primary service units.	*Met.* Under a FTAP project under PBS, information on service delivery is beginning to be provided through the posting of information on service delivery at primary schools, health care units and agricultural extension centres. The project is in the process of being rolled out to all woredas. The mass media and community organizations are increasingly disseminating information. The BOFED website contains a wealth of statistical information on the education and health sector (on a ANRS basis), but not on resources received versus budgeted amounts.

Score	Minimum Requirements	Justification
C▲	(i) The government makes available to the public 1-2 of the 6 listed types of information.	As described above. The transparency and comprehensiveness of information available to the public is strengthening, as indicated by the upward pointing arrow.

3.4. Policy based budgeting

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

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

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

This indicator reflects the organization, clarity and comprehensiveness of the annual budget process. Dimensions to be assessed are: (i) existence and adherence to a fixed budget calendar; (ii) clarity/comprehensiveness of and political involvement in the guidance on the preparation of submissions (budget circular or equivalent); and (iii) timely budget approval by the legislature or similarly mandated body (within the last three years).

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

Regions follow the Federal Government guidelines with regard to budget preparation, as described in the Federal Government's Budget Manual (January 2007). The Financial Calendar is outlined on pages 38-39 of the manual. The calendar is generally adhered to (although the exact dates may vary by region), but, in the case of the preparation of the 2009/10 budget (EFY 2002), some delays were experienced due to issues arising over the implementation of the new formula for the allocation of fiscal transfers (PI-8); the federal block grant comprises a large proportion of regional government resources, and, in turn, the block grant from the regional government comprises a large proportion of woreda government resources. The calendar allows six weeks for the submission of "Budget Requests" after the issue of the Budget Call (end-January, as indicated in the Calendar). Over 90 percent of bureaus submit their requests on time. Following evaluation by BOFED of these requests during March-April, budget ceilings are sent out in mid-May to bureaus, which then have three weeks to prepare detailed estimates to fit within these ceilings and submit to BOFED; much of the estimation work has already been conducted during the initial phase of budget preparation.

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

(ii) Guidance on the preparation of budget submissions

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

At a later stage, after the submission of Budget Requests to BOFED and subsequent discussion of these, the Regional Cabinet may prioritise (partly based on the proposals in the budget requests for new capital projects) the allocation to bureaus of any extra fiscal resources (‘fiscal space’) that may become available from the federal block grant, once the amount of this is known with reasonable certainty.

(iii) Timely Budget Approval by the Legislature

The Regional Council has approved the draft budget proclamation prior to the end of the financial year (i.e. by July 8) for the last three years.

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

The budget manual and training module were developed and distributed. The new Chart of Accounts came into use in 2003, and no problems were reported in using it. With the merger of the finance and planning bureaus, recurrent and capital budgets have been prepared together. The cost centre concept is used in the budget preparation process. Understanding of the budget reforms was assessed as being very good, partly due to training. None of the sector bureaus were using IBEX, partly due to insufficient computer facilities, but the benefits of IBEX are appreciated. More training is necessary. High staff turnover is a problem.

Score	Minimum Requirements	Justification	Information Sources
A (M2)			
A	*(i) Existence of and adherence to a fixed budget calendar* A clear annual budget calendar exists, is generally adhered to and allows regional bureaus enough time (and at least 6 weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.	Issues concerning the new federal government formula for fiscal transfers led to some divergence from the calendar in relation to preparation of the 2009/10 budget. In general, however, the calendar is adhered to. Following this, spending ceilings are set (mid-May), and bureaus then have 3 weeks to prepare estimates to fit within the ceilings,	-- Federal Budget Manual, January, 2010. -- Acting Head, BOFED.
A	*(ii) Guidance on the preparation of budget submissions* A comprehensive and clear budget circular is issued to regional bureaus, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs..	The Budget Call requires preparation of Budget Requests using standard formats, mainly on the basis of the estimated outturn for the current fiscal year, forecasts of spending next year under existing service levels and ongoing and committed capital projects and prioritized and well-justified proposals for new capital projects. The spending ceilings for existing service levels are therefore implicit in that they are "bounded" by the guidelines for the preparation of the requests. The Cabinet can prioritise the allocation of any 'fiscal space' that may become available after the completion of budget requests (based in part on proposals for new capital projects contained in budget requests), particularly after the amounts of the federal block grant become known. too low.	-- Federal Budget Manual, January 2007 (which include the standard budget preparation formats). -- Acting Head, BOFED
A	*(iii) Timely budget approval by the legislature* The legislature has, during the last three years, approved the budget before the start of the fiscal year.	This is required by the Federal Financial Administration Law (both the 2003 law and the new 2009 law). The Regional Council approved the draft budget proclamation before the end of each of the last three fiscal years.	-- Acting Head, BOFED (confirmed in subsequent correspondence) -- Budget proclamations for the 2009/10 and 2008/09 fiscal years (EFY 2002 and 2001).

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

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

(i) Multi-year fiscal forecasts and functional allocations

The Federal Budget Manual indicates (under Section 6, Budget Calendar) that regional governments, as with the Federal Government, should prepare a medium term Macro

Economic and Fiscal Framework (MEFF). In practice, as indicated by the Acting Head of BOFED, this is not yet done in a systematic way.[12]

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

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

(iii) Existence of costed sector strategies

Sector strategies are prepared at federal government level and then adapted to regional level. The assessment team was provided with the Amhara Education Sector Development Program III (AESDP, 2005/06-2009/10) by the Education Bureau; the ESDP covers education at both regional and woreda levels (i.e. Amhara National Regional State). The budget for education comprises about 25 percent of total ANRS expenditure. The strategy is costed, though the costs are more than double than what was actually provided for in the budget (according to a comparison of the projections in the plan for 2007/08 and the approved 2007/08 budget). The assessment team was not able to meet with the Health Bureau, but the Acting Head of BOFED indicated that a costed sector strategy plan for the region was in place, based on the federal strategy.

(iv) Linkages between investment budgets and forward expenditure estimates

In the case of AESDP, investment decisions are closely related to it. Future recurrent costs implied by investment decisions are reflected in the AESDP (the linkage is implicit: the number of classrooms to be constructed "will depend on the total enrollment and section student ratio targets" page 110) and their magnitudes influence investment decisions.

The Guidelines for Preparing the Capital Budget (contained in the Federal Budget Manual) stipulate that a public body should assess the recurrent budget implications of new capital projects before it includes them in its Budget Request. The Acting Head of Amhara BOFED confirmed this. Forward spending estimates are not yet formally prepared in the regional governments and thus projections of recurrent budget implications are informal at present and do not necessarily have any formal bearing on future budget preparation.

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Score	Minimum Requirements	Justification	Information Sources
D+(M2)			
D	*(i) Multi-year fiscal forecasts and functional allocations* No forward estimates of fiscal aggregates are undertaken.	Unlike at the Federal Government level, there is no formal medium term Macro-Economic and Fiscal Framework in place.	-- Acting Head, BOFED.
NA	*(ii) Scope and frequency of debt*	The Regional Government does not borrow and has no debt liabilities.	-- BOFED

[12] The assessment team was not able to obtain a copy of Amhara's MEFF, probably because it does not exist in a formal format.

Score	Minimum Requirements	Justification	Information Sources
	sustainability analysis		
C	*(iii) Existence of costed sector strategies* Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure, OR costed strategies cover more sectors but are inconsistent with broad fiscal forecasts..	Education spending comprises about 26 percent of total region-wide expenditure. The education sector strategy for 2005/06-2009/10 is costed, but the amounts are more than double what was actually provided for in the budgets. The team was unable to look at the ARG health sector strategy, but, on the basis of the federal government's Health Strategic Programme (2005/06-2009/10), the projected costs are also probably much higher than what is fiscally feasible.	-- Amhara Education Sector Development Program III, 2005/06-2009/10. -- BOFED.
C	*(iv) Linkages between investment budgets and forward expenditure estimates* Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.	Investment decisions are closely related to sector strategies, the costs of which include the recurrent cost implications of investments (at least in the case of AESDP). Budget Requests for new capital projects should (according to the Guidelines in the Federal Budget Manual) contain estimates of the future recurrent costs associated with such projects. BOFED emphasizes the need to prepare such estimates. . But forward budget estimates are not currently prepared in Amhara. A rating of D would be too low, as budgeting for recurrent and capital expenditure are not separate processes. A B rating would be too high, as this assumes forward budget estimates are prepared. .	-- Ditto

3.5. Predictability and control in budget execution

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

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

No.	C (ii) Predictability, Control and Budget Execution	Score	Dimensions	Scoring Methodology
			(iv) B	
PI-19	Competition, value for money and controls in Procurement	C	(i) D (ii) C (iii) B	M2
PI-20	Effectiveness of internal controls for non- salary expenditure	B	(i) B (ii) B (iii) B	M1
PI-21	Effectiveness of internal audit	C+	(i) C (ii) A (iii) C	M1

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

This indicator assesses the transparency of tax administration by reviewing:

(i) Clarity and comprehensiveness of tax liabilities

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

(iii) Existence and functioning of a tax appeals mechanism.

Background

The Amhara Revenue Authority was established in 2006; previously tax administration was one of the functions of BOFED. As an authority, it is at a level lower than a bureau (i.e. it is semi-autonomous). Its main departments (core business processes, according to the BPR terminology) are: Legal, Collection and Assessment, Tax Education and Public Relations, Tax Audit and Legal Enforcement, and Information Technology. Other departments (supportive business processes) are: Human Resources, Finance, and Internal Audit (which reports directly to the Authority head). The Authority has 56 employees at the head office in Bahirdar; sub-offices are located in the zones. IT developments in recent years are: (i) the establishment of the Standard Integrated Tax Administration System (SIGTAS), following in the footsteps of the Federal Government; [13] it is gradually being rolled out to the zones; and (ii) the introduction of biometric finger printing in support of greater compliance with tax registration requirements.

Tax revenues are mainly based on federal/regional revenue sharing arrangements concerning profits tax, VAT and excise taxes. Personal income tax, turnover tax (for businesses falling below the VAT registration threshold in terms of sales), agricultural income tax, rural land use fee, stamp duty and "Chatt" sales tax are not shared. There are no revenue sharing arrangements between the regional government and woreda governments. Woreda revenue offices may collect revenue on behalf of the regional government (particularly agricultural income tax); rather than surrendering this to the regional government, it may retain some, accompanied by an offsetting reduction in the block grant.

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

(i) Clarity and Comprehensiveness of tax liabilities

The main tax proclamations (in conformity with Federal Government proclamations) are: (i) Income tax (2003) and supporting regulations (2004); (ii) Turnover Tax (2003); (iii) Value-Added Tax (2002) and supporting regulations (2002); (iv) Excise Tax (2002); (v) Rural Land Use Fee and Agricultural Income Tax (2003); Stamp Duty (1999) and the "Chatt" Sales Tax (1999). Preparation of these proclamations was supported by financing under the Tax Reform component of the Public Sector Capacity Building Programme (PSCAP), with assistance from donors.

As would be expected, the legislation is reasonably comprehensive and clear, with limited and clearly stated discretionary powers. In the Income Tax Proclamation, the only discretionary powers (contained in Section 42) are: (i) Minister of Finance and Economic Development may waive tax liabilities up to ETB 100,000 at his discretion in cases of grave unavoidable hardship; approval of the Council of Ministers is required for waivers of tax liabilities greater than ETB 100,000; (ii) the Head of BOFED may waive tax liabilities under similar circumstances up to ETB 75,000 at his discretion; approval of the Council of Regional State is required for higher amounts. A similar discretionary power is provided to the Head of BOFED in the case of the turnover tax (section 39) and to the regional government in the case of the land use fee and agricultural income tax (e.g. because of drought). Presumptive taxation (businesses with less than ETB 100,000 turnover a year) implies discretionary powers by definition (as, in the absence of books of account, the Revenue Authority has to make an estimate of turnover and reach agreement with the business on this).

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

Several explanatory brochures have been prepared by the Revenue Authority for businesses and the general public, but the Authority acknowledges this is still work in progress. Examples of brochures include: (i) importance of keeping Books of Account (for businesses with a turnover of more than ETB 100,000 a year, known as Category B businesses); (ii) differences between Category A, Category B and Category C taxpayers;[14] (iii) how tax is assessed; and (iv) Tax Assessment Manual. The mass media (TV, radio and newspapers) are also used to inform the public about tax matters, for example there are two tax education programmes per week on the radio. The Authority does not yet have its own website, but expects to in the not-too-distant future.

(iii) Existence and functioning of tax appeals mechanism

The tax proclamations provide for a tax appeals mechanism for the four major taxes, the mechanism being the same for each type of tax (thus, the mechanism is described in detail in

[14] Category A applies to businesses with turnover greater than ETB 500,000 a year (and thus have to be registered for VAT). Category B applies to businesses with turnover between ETB 100,000 and ETB 500,000 a year (who pay turnover tax) and Category C applies to businesses with turnover of less than ETB 100,000 (for whom the presumptive tax applies, as they do not need to keep books of account). Ninety percent of tax payers fall under Category C.

the Income Tax Proclamation and summarized in the other tax proclamations[15]) Tax appeals processes have three components:

- *Review Committee*: Members of the Review Committee (RC) – accountable to the Revenue Authority -- are appointed by the head of BOFED upon the recommendations of the Revenue Authority. The RC examines tax payer queries over their tax assessments and, where appropriate, recommends waivers of assessed tax liabilities and any associated penalties and interest charges.

- *Tax Appeals Commission*: This is established at regional, zonal and woreda level and is independent of the Government. Members are selected from other bureaus (Trade and Industry, Capacity Building), tax payers themselves, and the Chamber of Commerce. It meets weekly (members are paid per diems). Submission of an appeal requires: (i) lodging within 30 days of receipt of the tax assessment notice or the date of the decision of the RC concerning the tax assessment; and (ii) deposit of 50 percent of the disputed amount with the Revenue Authority. The Commission has the authority to confirm, reduce or annul the tax assessment. The Chair of the Commission is required to prepare an annual report.

- *Court of Appeal*: A taxpayer dissatisfied with the decision of the Tax Appeals Commission may appeal to a court of appeal with 30 days of the decision on the grounds that the decision is erroneous in terms of the law. If dissatisfied with the decision of the court of appeal, the taxpayer may appeal to a higher court of appeal. The tax payer must first pay the full assessed tax liability.

The head of the Revenue Authority summarized for the PEFA assessment team the most recent report of the Tax Appeals Commission: (i) out of 124, 000 tax payers, 95, 381 paid their assessed taxes; (ii) there were 4,969 appeals, about half of which were submitted to the Commission following the findings of the Review Committee. The Commission resolves most appeals within 3-4 days. A major appeal that was successfully resolved without the case being taken to court was in 2003, when 30, 000 people complained about the presumptive tax.

The chairman of the Bahirdar Chamber of Commerce indicated to the assessment team that he was a member of the Tax Appeals Commission and that generally consensus was reached on its reviews of appeals. [16]

Score	Minimum Requirements	Justification	Information Sources
A (M2)	As listed in PEFA Framework		
A	*(i) Clarity and Comprehensiveness of tax liabilities* Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited powers for the	The assessment team reviewed the proclamations for the main taxes (listed above), including the sections concerning the powers of the authorities to exercise discretionary powers, and determined that an A rating was appropriate.	-- Tax proclamations listed above. -- Meeting with head of Revenue Authority. -- Meeting with Bahirdar Chamber of Commerce.

[15] Section X of Income Tax Proclamation, Section 5 of Turnover Tax Proclamation, Section 10 of VAT Proclamation, and Section 4 of Excise Tax Proclamation. The right to appeal is also stipulated in the Stamp Duty Proclamation.

[16] He mentioned that an Amhara Region Chamber of Commerce is in the process of being established.

Score	Minimum Requirements	Justification	Information Sources
	government entities involved.		
B ▲	*(i) Taxpayers' access to information on tax liabilities and administrative procedures* Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.	The Revenue Authority has prepared a number of brochures (examples listed above) and also uses the mass media to educate tax payers. The Authority informed the assessment team that tax payer education, though much improved, is still work in progress. The Authority is considering the establishment of its own website.	-- Meeting with head of Revenue Authority (during which brochures were shown to the assessment team).
A	*(iii) Existence & functioning of a tax appeals mechanism* A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.	A tax appeals system is in place, provided for under the Tax Proclamation Laws, and includes the independent Tax Appeals Commission, members of which include people from outside the Government, including the head of the Bahirdar Chamber of Commerce (who says consensus is usually achieved within a short time over queries submitted to it). The activities of the Commission are reported on by the Chairman.	-- Tax proclamation laws -- Meeting with Head of Revenue Authority. -- Meeting with the head of the Bahirdar Chamber of Commerce.

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

Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers. Effectiveness is determined by reviewing: (i) controls in the taxpayer registration system; (ii) effectiveness of penalties for non-compliance with registration and declaration obligations; and (iii) planning and monitoring of tax audit and fraud investigation programs.

(i) Controls in the taxpayer registration system

According to Article 44 of the Income Tax Proclamation, all people with a tax obligation are required to obtain a tax identification number (TIN). One of the main controls for ensuring possession of a TIN is the requirement to have one in order to obtain a business licence (hotel and restaurant receipts, for example, include the TIN), as stipulated in Article 46 of the Income Tax Proclamation. The Revenue Authority can then check if a business is registered for VAT (VAT registration requires an accompanying TIN) or turnover tax, is paying excise duties, that employees of the business have TINs and that personal income tax is paid at source (i.e. through withholding from gross salary). Other checkpoints include the federal Ethiopia Customs and Revenue Agency and business registries in other regions. The use of financial institutions as check points is likely to increase in the future. Unlike in Oromia Region, the use of cash register machines with electronic connections to the revenue authority has not yet started.

In terms of Category C taxpayers (those with no books of accounts and turnover less than EB 100,000 a year, and who are therefore liable to presumptive taxation), who comprise 90 percent of taxpayers, the culture of tax compliance has strengthened considerably in recent years as a result of the taxpayer education campaign (PI-13), a strengthened partnership between government and business (e.g. through the Tax Appeals Commission (PI-13) and a "door-to-door" approach. The Revenue Authority claims that compliance has reached 80 percent from low levels only a few years ago.

Out of a possible 124, 000 taxpayers, about 82,000 are registered and certified, and about 81,000 have TINs (supported by fingerprints).

Nevertheless, the system is perhaps not yet watertight. As noted under PI-19 (on procurement), possible less-than-arms-length relationships between potential tax payers and the government may be reflected in some businesses not being sufficiently taxed.

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

Penalties for non-compliance are set out in the tax proclamations and appear to be high enough to have potential significant impact. Section VII of the Income Tax Law provides for seizure of property in the event of default, Section VIII provides for administrative penalties[17]. Section IX provides for criminal penalties.[18] The turnover, VAT and Excise tax proclamations have penalties of similar scale and also interest charges on late payments. The penalty for late payment under the Agriculture Income Tax proclamation is 2 percent of the amount of tax due for each month the payment is in default and criminal penalties are according to the penal code. The Stamp Duty and Chatt Sales Tax also stipulate penalties.

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

(iii) Planning and monitoring of tax audit programs

As indicated above, only 10 percent of the 124,000 tax payers in Amhara region are in the A and B categories (923 in Category A, with turnover of at least EB 500,000 a year, and 6033 in Category B, with turnover of EB 100,000-500,000). As a result, rigorous risk-based tax audit systems have yet to be developed, though, nevertheless, capacity constraints preclude audit of all these taxpayers every year.

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

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

Following a BPR exercise, completed in early 2009, a risk-based audit approach has been developed. An audit manual was finalised in September, 2009 and an audit plan prepared.

The main risk area appears to be under Category B, where businesses fail to keep books of account and hope to reduce their tax liabilities through the presumptive tax assessment method. Such businesses tend to operate in the construction, hotels and transport sectors.

Score	Minimum Requirements	Justification	Information Sources
B (M2)	As listed in PEFA Framework		
B	*(i) Controls in the taxpayer registration system* Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.	Any person or business with potential tax obligations are required to have a unique TIN. A major control point is the requirement of a TIN in order to obtain a business license; this helps to ensure registration under the VAT, Excise tax and Turnover Tax Proclamations. Checks with Ethiopian Revenue and Customs Agency and business registries in other regions are also control points. Use of financial institutions as check points is likely to increase in the future.	-- Tax Proclamations --Head, Revenue Authority. --Head, Barhidar Chamber of Commerce.
B	*(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations* Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration..	Substantive penalties, high enough to act as a deterrent, are listed in the tax proclamations. The evidence is not sufficient to demonstrate consistent administration; the Chamber of Commerce hints at the possibility of inconsistent administration, which may be due in part to capacity constraints.	-- As above
C	*(iii) Planning & monitoring of tax audit and fraud investigation programs* There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.	A system of audit plans based on risk assessment criteria has only recently been instituted. With the numbers of tax payers in the A and B categories (i,e with books of account and turnover of at least ETB 100, 000 a year) the Revenue Authority has been trying to include as many of these as possible in its audit coverage, with greater focus on Category B taxpayers.	-- Head, Revenue Authority.

3.5.3 PI-15: Effectiveness in collection of tax payments

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

(i) Collection ratio for tax arrears

Partly because the bulk of tax payers pay their tax on a presumptive basis, the Revenue Authority has, until recently, not had a rigorous mechanism for tracking tax debts. Many tax payers say they won't pay or can't pay and collection of the resultant tax debts tends to be through property seizure. The Authority allows a payment period of up to 4 months before tax payments are considered overdue. Nevertheless, about three-quarters of tax payers (95,000) pay taxes on time, according to the Revenue Authority.

The Head of the Revenue Authority informed the assessment team that the stock of uncollected tax accumulated over 7 years to ETB 20 million by the end of 2008/09; previous arrears accumulated were written off by the Federal Government, partly in support of the tax reform programme. Actual revenue collections totaled ETB 942 million in 2008/09. Thus tax debts (arrears) comprised about 2 percent of total collections. It is not clear, however, (as the Revenue Authority appears, until recently, not to have kept a rigorous record of tax debts) whether the estimate of tax debts includes all the disputed tax (as it needs to do in order to score this dimension).

A recent development, arising from a BPR exercise during 2007/08, however, has been the establishment of a formal template to enable the reporting of tax arrears. Use of this only started during 2009/10.

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

A significant proportion of regional government tax revenue, particularly Agricultural Income Tax and Rural Land User fees, is collected by RA branches in woredas and town administrations and deposited with WOFED/TOFEDs (town administration finance and economic development offices). In the interests of efficiency, the WOFED/TOFEDs keep the revenue in order to expeditiously finance expenditures, and the amount of block grant from the regional government is reduced by the same amount. Regional government revenues collected by RA and not deposited with WOFED/TOFEDs (i.e. revenue other than Agricultural Income tax and Rural Land User fees) are deposited into RA's bank account in CBE, from which transfers are made nearly every day to BOFED's bank account in CBE (CBE has branches all over the country).

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

As tax arrears records are not complete or well-defined (due to the bulk of taxpayers in Category C), rigorous reconciliation is difficult and is not formally conducted. Reports on tax collection are prepared by the Revenue Authority for BOFED, showing tax collection for each type of tax at woreda level, zonal administration level and regional level. BOFED prepares six monthly reports for the Regional Cabinet and Regional Council. But such reports are not the same thing as a rigorous reconciliation exercise. The new tax debt recording templates referred to under dimension (i) will enable rigorous reconciliation.

Score	Minimum Requirements	Justification	Information Sources
D+▲ (M1)			
NS▲	Until recently, no formal mechanism was in place for recording tax debt. A mechanism has only come into place this year. So this dimension cannot be scored.	The large proportion of Category C taxpayers (turnover below ETB 100,000 a year and no books of account), the instances of disputed presumptive tax assessments and the long payments period allowed have complicated the keeping of formal records of the amount of tax arrears at the end of each year and the proportion of this collected during the year. . The Revenue Authority's estimates of tax arrears may not have included those tax debts in dispute. The Authority points out, however, that most taxpayers in fact pay on time. On the basis of the 2007/08 BPR exercise, a formal template was developed for reporting tax debts, and came into operation during 2009/10. This explains the upward pointing arrow.	Head, Revenue Authority BOFED: Revenue collections table, showing actual collections during 2008/09.
A	*(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.* All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.	A significant proportion of tax revenue is collected by RA branches in woredas/town administrations and deposited with WOFEDs/TOFEDS. In the interests of efficiency, the WOFEDs/TOFEDs keep this money and the monthly transfer of the block grant from BOFED is reduced commensurately. Tax revenue collected by RA branches and not deposited with WOFEDs/TOFEDs is deposited into RA bank accounts in CBE, from which transfers to BOFED bank account are mainly every day.	Head, Revenue Authority.
D▲	*(iii) Frequency of complete accounts reconciliation* Complete reconciliation of tax assessments, collections, arrears, and transfers to Treasury does not take place annually or is done with more than 3 months delay.	This is a default score, as the nature of the tax system complicates such a reconciliation process. The new template for recording tax debts will enable rigorous reconciliation in the future.	Head, Revenue Authority

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

Effective execution of the budget in accordance with work plans requires that spending ministries and agencies receive reliable information on the availability of funds within which they can commit expenditure.

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

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

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

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

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

There are two adjustments that can be made to budget allocations, above the level of bureau management; (i) transfers between bureaus that leave total spending unchanged; prior regional council approval is not required; and (ii) a change in allocations that results in an increase in total spending; prior regional council approval is required via a supplementary budget. In the case of (i), there is no reported record of the frequency of adjustments, although the date of each adjustment is presumably contained in the original source data. Only the total value of transfers in and out for each bureau is reported, but this says nothing about frequency. The low score for PI-2 indicates that transfers are substantial in monetary terms. Nearly all the adjustments concern capital expenditure. In the case of (ii), only one supplementary budget per year is presented to the Regional Council for approval.

Recent Developments

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

Score	Minimum Requirements	Justification	Information Sources
C+ (M1)			
B	(i) A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows.	Information provided by Financial Administration Department in BOFED and substantiated by similar experience in other regions.	-- BOFED Financial Administration Department. -- Draft East Afritac (IMF) Aide Memoire on Cash Management and Banking Arrangements in Ethiopia, February 2010.
A	(ii) Bureaus are	The cash flow forecasting framework, combined with the	-- BOFED Financial

Score	Minimum Requirements	Justification	Information Sources
	able to plan and commit expenditure for at least 6 months in advance in accordance with the budgeted appropriations.	internal controls over commitments (PI-20), the favorable revenue situation (PI-3) and the ability to access temporary financing from MOFED in the event of unexpected cash shortfalls, enable commitment of expenditures with a medium term time horizon.	Administration Department.
C	(iii) Significant in-year adjustments to budget allocations are frequent, but undertaken with some transparency.	Significant in-year adjustments take place above the level of bureau management through transfers between bureaus. The Federal Financial Administration Law (both the previous 2003 law and the new 2009 law), along with the Financial Regulations under the previous law, and the annual Budget Proclamation laws provide for a degree of transparency in making adjustments (the laws and regulations at regional government level are very similar to the Federal Government laws).	-- BOFED Financial Administration Department -- Amhara Regional bureau Budget Performance Reports -- Financial Administration Laws and Regulations. -- Annual Budget Proclamation Laws.

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

(i) Quality of Debt Recording and Management

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

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

As part of cash management reform aimed at reducing the stock of unutilized cash sitting in bank accounts, a zero-balance account (Z accounts) system was instituted in 2004/05 and became fully operational in 2007/08.[19] Under this system, bureaus have 'virtual' accounts at Commercial Bank of Ethiopia (CBE) into which funds are deposited each day by BOFED from its central treasury account (CTA) held at National Bank of Ethiopia in accordance with the cash requirements of sector bureaus; at the end of each day, unused deposits are "swept" back into the central treasury account. In effect, the CTA and the Z accounts constitute a Treasury Single Account (TSA). Balances are calculated on a daily basis. Previous to this system the Amhara region BOFED was making direct payments in cash for the sector bureaus.

On the basis of the quarterly revenue and expenditure forecasts of bureaus at the start of the new financial year (PI-16), BOFED prepares a monthly cash flow forecast, which serves as the basis for the setting of monthly cash availability ceilings for each bureau. Bureaus can draw-down from the virtual account the funds required for making payments (for salaries, non-wage recurrent expenditure and capital expenditure) up to the monthly limit, subject to the provision of supporting documentation (for non-wage expenditure).

In addition to the Z accounts, there are donor project accounts and revenue accounts. Donor funds provided through Channel 1 are deposited in bank accounts under the control of

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

BOFED, but they cannot be zero-balanced at the end of each day; i.e. the balances are known but are not consolidated into the central treasury account. Donor funds provided through Channel 2 (including for extra-budgetary funds such as the Global Fund) are deposited in bank accounts under sector bureau control (but BOFED approval is still needed to open them). PBS and Safety Net funds are effectively budget support funds and are deposited in the CTA. About 70 percent of all deposits in ARG bank accounts are with TSA.

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

(iii) Systems for contracting loans and issuance of guarantees

The ARG is not allowed to borrow or guarantee loans.

EMCP Impact Assessment Study: With regard to Amhara, the study notes the benefits associated with the zero balance system in terms of elimination of idle cash balances, less paperwork and the shorter payments process in terms of time (also a benefit of IBEX, which has been rolled out to regions)

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

3.5.6. PI-18: Effectiveness of payroll controls

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management. The assessment looks in particular at: (i) the degree of integration/reconciliation between personnel and payroll databases; (ii) timeliness of changes to personnel records and the payroll; (iii) internal controls of changes to personnel records and the payroll; and (iv) existence of payroll audits to identify control weaknesses and/or ghost workers. This indicator is concerned with the payroll of public servants only; wages for casual labor and discretionary allowances are included in the assessment of general internal controls (PI-20).

Controls over personnel records and the payroll are very important in a situation where the wage and salary bill represents about 70 percent of total domestically-financed regional bureau expenditure.

Given the decentralised nature of personnel and payroll management, the assessment team met officials from the Amhara Education Bureau as well as from BOFED. The findings outlined below mainly match the observations of BOFED.

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

Payroll and personnel management are decentralized to public body level in Ethiopia. Wages and salaries are paid by the Finance Department on the 24^{th} of each month on the basis of the list of staff contained in its payroll system. Prior to this, the Head of the Human Resource Department in a bureau will send a list to Head of FAPMD of any changes to its personnel records that need to be reflected in the payroll, including attendance related changes. In this regard, managers of departments are required to submit to HRDs signed attendance records of the staff under them. From time to time, the Civil Service Agency checks that the positions of the staff on the list are consistent with the list of established positions. .

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

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

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

The main controls are: (i) the Heads of Human Resource Departments and FAPMDs and their subordinates (head of personnel, the chief accountant and cashier) have to sign off on the staff list and payroll list, prepared by lower level of staff; i.e. segregation of duties; (ii) the staff member being paid also has to sign off; (iii) only authorized personnel (authorized by the Head of Finance Department, who notifies the Chief Accountant) can access the computerized payroll system, and then only through the use of a password provided by the Department Head; and (iv) the staff in charge of the payroll cannot change the list of personnel provided by Personnel Department to the Finance Department.

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

The Internal Audit Department in each bureau audits the payroll every month. Although the internal audit function was established a few years ago, it has really only become functional since the beginning of the 2009/10 financial year, due to the BPR exercise leading to increased staffing levels (discussed further in PI-21). The scope of the external auditor (ORAG) also includes payroll audits, but not every year, due to capacity constraints (PI-26). Given the decentralized payroll and personnel management system, ORAG's audits of bureaus cover this for all bureaus over a period of 2-3 years (as ORAG does not audit all bureaus each year).

Score	Minimum Requirements	Justification	Information Sources
B+ (M1)			
B	*(i) Degree of integration and*	The linkages between the personnel records and the	-- BOFED

Score	Minimum Requirements	Justification	Information Sources
	reconciliation between personnel records and payroll data Personnel data and payroll data are not directly linked, but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.	payroll are manual, but the decentralized nature of the payroll system (a public body is responsible for both the payroll system and the personnel records) support close linkages. Each month, Human Resource Departments notify FAPMDs of any changes to personnel records (e.g. through recruitment, changes in a attendance records, as indicated in signed attendance sheets). .	-- Head of Education Bureau
A	*(ii) Timeliness of changes to personnel records and the payroll data* Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payroll. Retroactive adjustments are rare.	The decentralized nature of the payroll management system supports timely changes to personnel records followed by timely changes to the payroll. Changes made to personnel records after the 24th of each month are reflected in a subsidiary payroll or next month's payroll.	-- Acting BOFED head and head of Finance and Administration Department.
A	*(iii) Internal controls of changes to personnel records and the payroll* Authority to change records and payroll is restricted and results in an audit trail.	As indicated in the text above. The audit trail is reflected in the letters and signed (multiple signatures) forms.	-- Ditto
B	*(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers* A payroll audit covering central government entities has been conducted at least once in the past three years (whether in stages or as one single exercise).	Starting at the beginning of 2009/10 financial year as a result of BPR, IADs in bureaus are conducting routine payroll audits during the year (although the IAD in Education Bureau is not yet effective, having only one staff member). The scope of ORAG also includes payroll audits. ORAG is not able to audit all public bodies each year, but, as indicated under PI-26, ORAG effectively audits every public body over a 3 year period (each year for the larger ministries) .	-- Acting BOFED Head, Head of Financial Administration Department, Head of Inspection and Audit Unit in BOFED (inspects working of internal audit departments in other bureaus), Education Bureau Head, and Head of ORAG.

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

A well-functioning procurement system ensures that money is used efficiently and effectively.

Procurement legislation at the regional government level is based on the federal procurement proclamation approved in 2005 (and supporting directives) and a new proclamation dated September 2009 (which mainly extends coverage to property administration). Draft directives have been prepared in support of the new proclamation.

Procurement is mainly the responsibility of public bodies. The BOFED plays a regulatory, standard setting, technical advisory, inspection, monitoring and complaints addressing role.

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

As specified in the legislation, open competition is the preferred method of tendering above ETB 5,000; below this, quotes can be requested. Other procurement methods can be used above this threshold under circumstances specified in the legislation: restricted tendering, request for proposals, two stage tendering, and direct procurement (sole source supplier). The maximum threshold for restrictive tendering is EB 400,000. The maximum threshold for sole source procurement is ETB 1.5 million for construction and ETB 200,000 for consultancy services.

BOFED does not collate information on the number and value of contracts above the threshold by type of procurement method, although the legislation implies (through the monitoring role) that it can request sector bureaus to provide this information. The information exists, but obtaining it for the purposes of scoring this dimension would have required meetings with several sector bureaus and time did not permit this.

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

The procurement legislation clearly outlines the criteria under which less competitive procurement methods above the threshold can be used. As indicated in (i), BOFED does not keep a record of the extent and the reasons for the use of less competitive procurement methods. The procurement legislation provides an inspection role for the procurement department staff in BOFED. This role is not played, however, partly because of insufficient capacity (the department has five staff) and partly because the internal audit departments in sector bureaus are supposed to assess how well the procurement law and its directives are being complied with by the procurement unit within each bureau (i.e.to check whether the control systems in place with respect to procurement are working satisfactorily). The external audit function is also supposed to check whether the procurement system is working properly in compliance with the legislation and directives.

The assessment team met with the head of the Barhidar Chamber of Commerce, who implied that the criteria for the use of less competitive methods are not necessarily always adhered to or are applied less than transparently, reflecting, possibly, less-than-arms length relationships between businesses, politicians and government officials (but this is the situation in many countries, including developed countries). The practice of the government of not publishing contract awards may reflect such relationships and diminishes the transparency of the procurement system. [20]

(iii) Existence and operation of a procurement complaints mechanism

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

[20] Out of 6000 businesses located in Bahridar, 1, 200 are members of the Chamber of Commerce. An Amhara Region Chamber of Commerce is in the process of being established.

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

In practice, BOFED receives 50-60 complaints a year. Only one case so far has gone to court. In many cases, the complaints reflect inadequate knowledge of the procurement procedures and are therefore resolved through explanation of the procedures to the complainant. Some cases may involve allegations of favoritism in awarding of contracts. Thus, in the absence of a higher external body to appeal to, complaints may not be adequately dealt with.

EMCP Assessment Study

The study indicates: (i) the procurement law and directives have been implemented since 2005 (EFY 1998); (ii) standard bid document distributed to all offices in the region and implemented by all sector bureaus and ZOFEDs (zonal administration FEDs) and most of the WOFEDs and town-equivalents; (iii) BOFED approved a procurement service structure – 5 staff; (iv) directive on pool procurement method for zones and woredas distributed; (v) the survey indicated perceived improvements in the system, but also pointed out issues concerning lack of training and insufficient technical support from MOFED/BOFED.

Score	Minimum Requirements	Justification	Information Sources
C (M2)			
D	*(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases* Insufficient data exist to assess the method used to award public contracts.	Procurement is in most cases the responsibility of procuring entities established within sector bureaus. These do not send procurement information to the procurement department in BOFED, mainly, it seems, because BOFED does not request it (although the legislation provides for such requests).	-- Head of procurement department in BOFED. -- Procurement legislation.
C	*(ii) Justification for use of less competitive procurement methods* Justification for use of less competitive methods is weak or missing.	The procurement legislation indicates the criteria for using less competitive procurement methods above the threshold. BOFED does not collect information on justifications for using less competitive methods, although the information should be available within the procuring entity and the internal and external audit functions should be able to determine the validity of such justifications. Political connections between businesses and government may influence choice of tendering method and the current practice of not publishing contract awards.	-- As above. -- Head, Bahirdar Chamber of Commerce
B	*(iii) Existence and operation of a procurement complaints mechanism* A process (defined by legislation) for submitting and addressing procurement complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority.	The procurement legislation provides for a complaints submission mechanism. This is operative. A procurement-specific external higher authority is not provided for in the legislation; complaints above the level of BOFED have to go through the court system (only one case up to now).	-- As above.

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

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

(i) Effectiveness of expenditure commitment controls

Section 25 of the 2003 Financial Administration Proclamation and Section 32 of the 2009 Financial Administration Proclamation (broadly the same) states that expenditure commitments cannot be entered into without approval of the head of the public body (or a person authorized by him) and without a “sufficient unencumbered balance from the budget to discharge any debt that will be incurred during the fiscal year in which the contract or other arrangement is made”. As noted under PI-16 (ii), this means that commitments depend only on the approved budget, not on actual cash availability, which cannot be known with certainty at the time of commitment. However, cash flow forecasting (PI 16 i) and more efficient cash management on the basis of the expanded Treasury Single Account system (PI-17 ii) help to reduce the risks of cash not being available when the time comes up for payment (which may be a few months away, depending on the nature of the commitment).

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

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

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

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

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

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

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

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

Score	Minimum Requirements	Justification	Information Sources
B (M1)	Listed in PEFA Framework		
B	*(i) Effectiveness of expenditure commitment controls* Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.	Commitments are authorized on the basis of the approved budget allocations (as specified in the legislation), not on cash availability (not specified in the legislation). Good revenue performance (PI-3) and the cash flow forecasting and strengthened cash management systems (PIs 16 and 17) help to minimize the risk of cash unavailability at the time of actual payment. In addition, if there is a serious risk of a cash shortfall, managers try to find offsetting adjustments in other parts of the budget. .	-- Financial Administration proclamations (2003 and 2009) and Regulations (2003). -- BOFED staff.
B	*(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures* Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some cases be excessive and lead to inefficiency.	Financial and non-financial control systems are comprehensive, well documented and generally understood. The BPR exercises identified areas where controls could be streamlined, resulting in efficiency gains, partly taking into account the embedding of IBEX. Some streamlining has already taken place (e.g. reduction in the number of signatures required) but the process is not yet finished, and an A rating is probably premature.	As above.
B	*(iii) Degree of compliance with rules for processing and recording transactions* Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.	The annual report of ORAG for April 2007-March 2008 identified some areas of insufficient adherence to internal controls, particularly related to procurement. The Chairman of the Budget and Finance Committee in the Amhara Regional Council confirmed this to the assessment team.	--- BOFED staff -- ORAG annual report to BFC, Regional Council. -- BFC, Regional Council.

3.5.9 PI-21: Effectiveness of internal audit

Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). .

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

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

According to the Inspection Department (ID) in BOFED, which oversees the development of the IA function, IA units have been established in all bureaus and zonal administration and in most woredas (WOFEDs usually perform the IA function through the single pool system). IA departments formally report to both the heads of the bureaus in which they are established and to ID (i.e. dual subordination). Training manuals have been developed (based on the Federal Government IA manual), with focus on meeting professional standards (as per the International Standards for the Professional Practice in Internal Audit, issued by the Institute of Internal Auditors). As a minimum qualification, internal auditors are required to have a bachelors of arts degree in Accounting and Management. The ID organizes training courses (through Training Management Institute) for internal auditors and provides technical assistance, while ORAG “accredits” internal auditors through issuance of certificates (MOFED has provided training in this regard). As per the Internal Audit Manual, the focus of IA is on systemic issues.

On paper, this dimension would appear to score A or B in terms of coverage, meeting of professional standards and focus on systemic issues. In practice, the IA function is still developing and cannot be said to be fully operational, and ID says that professional standards are not always met. In part, this is because IA departments have had insufficient staff. For example, the IA Department in the Amhara Education Bureau (visited by the assessment team) has only one internal auditor in position. The BPR exercise identified insufficient staffing as a major constraint to the development of the IA function and, as a result, IA units are permitted to have 4-5 staff. But this has only been the case since the beginning of 2009/10, and it is taking time for vacant positions to be filled. As with the rest of the civil service, pay and benefit levels are issues constraining the recruitment and retention of staff.

In addition, heads of bureaus do not necessarily place great importance on development of the IA function, and may place higher priority on filling other vacant positions (with shortages of skilled personnel for many skill-set, managers clearly have to take opportunity costs into account when making hiring decisions). This appears to be the case in the Education Bureau, which is the largest bureau (also no internal auditors in zonal bureaus). The IA function appears to be accorded greater importance in the Rural Roads Authority (also visited by the assessment team), where three out of five positions have been filled.

(ii) Frequency and distribution of reports.

IA departments submit reports on a quarterly basis to their bureau heads and to ID in BOFED. There is no legal requirement to submit reports to ORAG (which is accountable to the Regional Council and not the executive), but ORAG can (and does) obtain IA reports on request.

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

According to ID, many managers take prompt and comprehensive action in response to IA reports (B rating). According to the IA department in the Education Bureau, the extent of follow-up is limited, both in terms of promptness and comprehensiveness.

EMCP Impact Assessment Study

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

Score C+ M1	Minimum Requirements	Justification	Information Sources
C	*(i) Coverage & quality of the internal audit function* The function is operational for at least the most important government regional government entities and undertakes some systems review (at least 20 percent of staff time), but may not meet recognized professional standards.	On paper, the IA function is operational for all regional government entities, meets professional standards and focuses on systemic issues. In practice, insufficient numbers of positions and the time it takes for a pool of professional auditors to be established has resulted in the function only now beginning to be fully established. As a result of the BPR, the numbers of positions in IA functions has been sharply increased to 4-5 since the beginning of 2008/09, but it is taking time to fill these positions.	-- Federal Government internal audit manual. -- Meeting with ID (BOFED) staff. -- Meeting with IA department in Bureau of Education. -- Meeting with Head, Rural Roads Authority.
A	*(ii) Frequency & distribution of reports* Reports adhere to a fixed schedule and are distributed to the audited entity, BOFED and ORAG.	IA departments prepare quarterly reports and submit to the head of the entity in which they are located and to IIAD in BOFED. Reports are provided to ORAG on request (the legislation does not provide for obligatory submission of reports to ORAG).	-- ID, BOFED -- Example of IA report, IA department in Education Bureau.
C	*(iii) Extent of management response to internal audit findings* A fair degree of action taken by many managers on major issues but often with delay.	The extent of management response appears to vary according to the importance attached by management to the IA function. In the education bureau (the largest in terms of expenditure), the IA function appears not to be treated seriously.	-- ID, BOFED; -- IA department in Education bureau.

3.6 Accounting, recording and reporting

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

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

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

(i) Regularity of bank reconciliations

Reconciliation between the Central Treasury Account (CTA) held in National Bank of Ethiopia (NBE) and the general ledger (held in IBEX in BOFED) takes place (by FAPMD) within 10 days of the end of the month. About 70 percent of ARG deposits are held in CTA/Z accounts. Movements on the CTA account and Z accounts in CBE (see PI-17) are reconciled daily (the CTA and Z accounts are effectively the TSA). Reconciliation is at both aggregate and detailed level. There are no significant unreconciled differences, the reconciliation items mainly consisting of unpresented cheques, deposits and transfers made on the closing date, uncleared bank deposits and late recording by some budgetary institutions.

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

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

Suspense accounts and advances are classified in the Chart of Accounts under code 4201 for suspense accounts and code items 4203-4211 for advances. Suspense accounts may include revenue deposits awaiting deposit into CTA, advance accounts include advances to staff and 'purchase' advances. Staff advances are supposed (under the Financial Regulations) to be retired within a short space of time (7 days for travel advances), and, according to BOFED, this requirement is adhered to. For the purposes of scoring this dimension, advances exclude prepayments to contractors, as these may not be retired until the end of a project, which may not be until the following year.

The trial balance sheet for the end of 2008/09 (EFY 2001) indicates ETB 7.8 million in suspense accounts (recorded as debit), advances to staff of ETB 2.4 million, and purchase advances of ETB 64 million. The trial balance sheet for the end of July 2009 indicates suspense account balances of ETB 3.6 million, advances to staff of ETB 6 million and purchase advances of ETB 38.4 million. The trial balance sheet for the end of August, 2009 indicates suspense account balances of ETB 3.4 million, advances to staff of ETB 4 million, and purchase advances of ETB 35 million. This in itself is not enough information to score, as the breakdown between items retired and new items is not shown; i.e. the age profile is not shown. Obtaining an age profile would require obtaining the trial balance sheets for each bureau, but this would be very time consuming.

Score	Minimum Requirements	Justification	Information Sources
B+ (M2)	**As listed in PEFA Framework**		
B	*(i) Regularity of bank reconciliations* Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from the end of the month.	Reconciliation of the bank accounts held under CTA/Z accounts (representing about 70 percent of ARG deposits) with the ledger held in BOFED (in IBEX) takes place every month within 10 days of the end of the month. Reconciliation of other accounts (extra-budgetary funds and donor projects) also takes place every month in most cases (but every 3 months for the Roads Fund) usually within 4 weeks from the end of the period, though not necessarily on a detailed basis in the case of UN projects, which use different COA. The information is provided (except perhaps for Global Fund) to BOFED.	-- BOFED --Head, Roads Authority.
A	*(ii) Regularity of reconciliation and suspense accounts and advances* Reconciliation and clearance of suspense accounts and advances takes place at least quarterly, within a month from the end of the period and with few balances brought forward..	BOFED claims regular clearance. End-month trial balance sheets prepared by BOFED indicate items outstanding, but does not show an age profile, so it is not possible on the basis of the information to determine the difference between new items and items carried forward. An A rating is assigned, given BOFED's assurances of regular clearance. .	-- Trial balance sheets (end-2008/09, EFY 2001), end-July 2009 and end-August, 2009. -- BOFED

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

Woreda governments have the main responsibility for primary education and health care service delivery units (SDUs). Primary schools are not cost centres; they do not have individual recurrent budget classification codes assigned to them (though capital expenditure -- funded by the regional government -- on primary schools is captured in the project codes in the budget classification system). Thus budget execution reports cannot explicitly report on the financial resources they receive relative to their approved budgets. The woreda education bureaus (which are cost centres) are responsible for allocating the physical resources purchased under their budgets to the SDUs, though, in practice, the WOFED acts as the financial manager for the education bureau (single pool system). The education bureau maintains standardized manual ledgers for each school, and in this way the flow of resources to primary schools can be tracked.

Woreda education bureaus forward physical activity reports to zonal education bureaus, which then send to the regional bureau, which then sends to the Regional Cabinet. In principle, these should show the financial and physical resources received by SDUs relative to what they should be receiving, though in practice this may not happen due to capacity constraints.

The assessment team was unable to meet the Amhara Health bureau (BOFED was unable to set up an appointment). Health service delivery takes place, at woreda government level, through health centres (covering both in-patients and out-patients) and health posts (smaller client base, out-patients only). Health centres are classified in the budget classification as sub-agencies; they have finance offices; their budgets and the execution thereof are therefore captured in woreda government budget reports. Health posts are not captured in the budget classification system, except, as in the case of primary education, in the case of capital expenditures. However, manual ledgers maintained in the woreda health office enables the tracking of resources to health posts.

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

Score	Minimum Requirements	Justification	Information Sources
B	*Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-end delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector (s), irrespective of which level of government is responsible for the operation and funding of those units.* (i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in-kind by either primary schools or primary health care clinics across most of the region with information compiled into reports at least annually..	Primary schools and health posts (for outpatients only) are not cost centres and do not have their own budget classification codes, and so incomes and expenditure are not captured in budgets and budget performance reports. However, manual ledgers capturing the flow of resources are maintained by the education and health offices. Health centres (in-patients & outpatients) are sub-agencies and captured by the budget classification system. Information is being increasingly disseminated through the media on flows of resources to SDUs, and a service delivery monitoring template pilot project is now being rolled out (posted outside SDUs). A system for reporting by woreda offices to zonal administrations (and then to the regional bureaus) is formally in place, but functions imperfectly due to capacity constraints. .	• -- Amhara Education Bureau, Head, Planning and Budgeting Department. • -- Head, Financial Adminstration & Property Management Department, BOFED. -- It was not possible to meet the Health Bureau.

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

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

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

Detailed budget performance reports for management are prepared by BOFED through IBEX for revenues, recurrent and capital expenditures for each public body (and sub-agencies within each body) according to economic classification. The reports show actual expenditures and not expenditure commitments; the semi-computerised reports submitted by the bureaus include the expenditure commitments, but these are not recorded in IBEX. They do not include capital expenditure financed through donor assistance (unless the donor assistance is provided through Channel 1, for the most part the case, and also uses the government's budget classification system, which is not necessarily the case). IBEX is in the process of being rolled out to sector bureaus, thereby facilitating in the near future the inclusion of expenditure commitments in reports for management.

Reports on budget subsidies to woreda governments are also prepared each month; they are shown on the BOFED web-site.

(ii) Timeliness of the issue of the reports

The reports are issued quarterly, within one month of the end of the quarter. Sometimes, they are shown on the BOFED web-site.

(iii) Quality of information

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

Ongoing actions and plans

Although IBEX has been rolled out to the region, sector bureaus are not yet electronically linked with BOFED. Financial performance data is hand-carried to BOFED in the form of CDs. The next stage of roll-out is the networking of the sector bureaus with BOFED; work commenced during 2009/10,.

Score	Minimum Requirements	Justification	Information Sources
C+ ▲(M1)	As listed in the PEFA Framework		
C▲	*(i) Scope of reports in terms of coverage and compatibility with budget estimates* Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage, but not both.	Detailed comparison is possible for revenues, recurrent expenditures and domestically-financed capital expenditure for each public body (and sub-agency within the body) and by economic classification. Actual expenditure is shown, not expenditure commitments, though the semi-computerised information provided by sector bureaus to BOFEDs includes expenditure commitments. A higher rating requires that commitments are reported on. IBEX is in the process of being rolled out to sector bureaus, and this will facilitate the inclusion of commitments in reports.	-- BOFED staff; -- Budget performance reports.
A	*(ii) Timeliness of the issue of reports* Reports are prepared quarterly, or more frequently, and issued within 4 weeks of the end of period.	Information provided by BOFED.	-- BOFED: Head, Financial Administration and Property Department. -- Budget Performance reports.
B▲	*(iii) Quality of information* There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/usefulness.	BOFED checks the information provided by sector bureaus. Checking in principle has been made easier by the introduction of double-entry book-keeping. Nevertheless, there is potential for making mistakes, for example, in selecting the correct contra-entries, particularly in the context of semi-manual recording methods still used (as IBEX is still being rolled out to sector bureaus). BOFED discusses accuracy issues with sector bureaus and usually resolves them. With IBEX being rolled out to sector bureaus, accuracy	-- As above.

Score	Minimum Requirements	Justification	Information Sources
		should increase..	

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

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

(i) Completeness of the financial statements

BOFED prepares a consolidated government financial statement annually. This contains mainly full information on revenues, expenditures, financial assets and liabilities, but coverage of donor-funded projects and extra-budgetary funds is not complete. Information on donor-funded projects using the Channel 2 mechanism is absent; this comprises perhaps up to 40 percent of donor assistance provided to ARG. Roads Fund accounting is on a single entry book-keeping basis, and the financial reports submitted to BOFED by the Rural Roads Authority on the Fund omit information on receivables and payables.

(ii) Timeliness of the submission of the financial statements

There used to be a 2-3 year lag between the end of the financial year and the submission of annual financial statements to ORAG, but this has been reduced to less than a year. The introduction of IBEX is one reason. The financial statements for 2008/09 (EFY 2001) were submitted to ORAG in March 2010 (the statements for 2007/08 were submitted in December, 2008, and the statements for 2006/07 in February 2008). The financial statements cover woreda governments as well as the regional government, so preparation takes longer than it would if the statements covered only the regional government. Timeliness will strengthen further as regional bureaus are networked to the IBEX electronically and as IBEX is rolled out to woredas.

(iii) Accounting standards used.

The accounting standards used are consistent with Generally Accepted Accounting Practices (GAAP). Double entry booking-keeping and modified cash accounting were introduced in 2003/04 (EFY 1996) as part of the accounting reforms. The financial statements include accounts receivables and payables.

But IPSAS on a cash basis is not yet fully used, nor are standards used that are consistent with IPSAS on a cash basis. As noted in the PEFA Secretariat's "Clarifications to the PFM Performance Measurement Framework, June 2005 (updated September 2008), financial information on externally-funded projects should be included in annual financial statements under IPSAS. If they are not, the statements are not compliant with IPSAS. In the case of ORG (and bureaus in other regional states), information is lacking on actual expenditure under Channel 2-type projects, even though these projects may appear in the approved budget proclamation, and even under Channel 1 projects, information on actual expenditure is not necessarily complete if the projects do not use the government's budget classification system and therefore are not reported on and accounted for in IBEX, as is the case for some projects (e.g. the expenditures of the Roads Fund, as noted under dimension i) above).

Ongoing actions and plans

A new financial statements model is being piloted by MOFED.

EMCP Assessment Study

ARG introduced the double entry accounting system on a modified cash basis in 2003/04 (EFY 1996). BOFED prepared the accounting manuals and training modules and distributed to sector bureaus, zones, woreda and city administrations. The new accounting system has improved the preparation of reports and closing of accounts, partly through less paperwork, fewer processing steps, greater accuracy and ease of reconciling accounts. The closing of accounts became up-to-date. IBEX has been used for the accounting function since 2006/07 (EFY 1999), with many benefits reported. Lack of ownership of IBEX, insufficient continuous training and problems in retaining trained staff are noted as significant issues.

Score	Minimum Requirements	Justification	Information Sources
C+ (M1)			
B	*(i) Completeness of the financial statements* A consolidated government statement is prepared annually. It includes, with few exceptions, full information on revenue, expenditure and financial assets/liabilities.	Full information is not provided on donor-supported projects, programmes and funds, with the partial exception of those that use the Channel 1 funding modality and the government's budget classification system. .	-- BOFED -- Head, Rural Roads Authority.
B	*(ii) Timeliness of submission of the financial statements* The statements are submitted for external audit within 10 months of the end of the fiscal year.	The statements for 2006/07, 2007/08 and 2008/09 were submitted to ORAG in February 2008, December 2008 and March 2010 respectively (8, 6 and 9 months respectively from the end of the financial year)..	-- BOFED
C	*(iii) Accounting Standards used* Statements are presented in a consistent format over time with some disclosure of accounting standards.	The national standards are used, which meet Generally Accepted Accounting Practices (GAAP), which are not the same as IPSAS (required for a B rating). IPSAS on a cash basis requires information in the annual financial statements on expenditures of donor-funded projects, where these are included in the budget proclamations. However, as noted in the text above, this is not the case..	• Ditto • PEFA Secretariat "Clarifications to the PFM Performance Management Framework, June 2005 (updated September 2008)" • IFAC (IPSAS on cash basis)..

3.7. External oversight and legislative scrutiny

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

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

No.	External Scrutiny and Audit	Score	Dimensions	Scoring Methodology
			(iii) B (iv) B	
PI-28	Legislative scrutiny of external audit reports.	B+	(i) A (ii) B (iii) A	M1

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

(i) Scope and nature of audit

This dimension comprises three sub-dimensions. The lowest sub-dimension score is the score for the dimension as a whole (i.e. if the lowest sub-dimension score is D, the score for the dimension is D).

(a) Extent of audit coverage of regional government bureaus

The Office of the Regional Auditor General (ORAG) covers the woreda governments as well as the 40 regional government bureaus (including sub-agencies, a portion of which have offices geographically located in woredas), 700 public bodies in all. It covered 140 of these (20 percent) in 2008/09 and intends to cover 210 (30 percent) in 2009/10. At woreda level, the Single Pool system (whereby the WOFED handles PFM, including internal audit, of the woreda sector offices) permits aggregation, so that an external audit can cover 16-20 bodies as one aggregate body. Such pooling also happens to some extent at the regional bureau level: for example, the Education and Capacity Building Bureaus are covered together.

In deciding which public bodies to audit each year, ORAG uses a risk-based (High, Medium, Low) approach, the larger public bodies (in terms of expenditure) being deemed high risk. These are covered every year. Medium-sized public bodies are covered every two years. This means in effect that all regional government bureaus are covered in two years, with 75-80 percent (in terms of the proportion of domestically-financed regional bureau expenditure) covered each year.

Extra-budgetary funds are covered in the cases where the source documents are available in the bureaus. Thus, the Food Security, Safety Net and Roads Funds (under Rural Roads Authority) are audited by ORAG. If the source documents are unavailable, the external auditor for the Federal Government (OFAG) is responsible for the audit.

Enterprises owned by ARG also fall within ORAG's scope, but ORAG tends to outsource audits to private companies (e.g. Tana Transport is audited by a private company); Section 9 of the Proclamation covering ORAG provides for this. ORAG first checks the credentials of the private auditor and issues a certificate that authorizes it to conduct audits on behalf of ORAG. In addition, ORAG's scope includes private companies under contract to ARG (for contracts exceeding EB 500,000, as indicated in Article 8 in the ORAG law, covering the Powers and Duties of ORAG), but in practice this has not been exercised.

(b) Nature of Audit

The emphasis is on financial (covering revenue, expenditure, and financial assets and liabilities) and compliance audits (covering internal controls, including those for the payroll system). ORAG has conducted a handful of performance audits and special audits (where legal matters are involved, usually upon request, for example by the Regional Council). It has not conducted any IT audits or environmental audits.

c) Adherence to Auditing Standards

Publication of Audit Reports (INTOSAI Standard):

As ORAG is accountable to the Regional Council (article 13 of the ORAG law), the Council can authorize publication of audit reports. Audit reports are posted on ORAG's website, as is the annual report prepared by ORAG; the annual report is also disseminated to the public through the radio. The website's name is: www.anrsoag.gov.et, as indicated by ORAG and as verified through a Google search. However, it appears to be not functioning at present, partly because of resource constraints.

Independence of ORAG from the Executive (INTOSAI Standard)

As noted above, ORAG is accountable to the Regional Council and thus is independent in principle from ARG. This independence is compromised to some extent, however, as ORAG's budget is included in the ARG budget. ORAG underspent its budget during each of the last three completed financial years.

Co-operation and Public Relations

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

Audit Methodology

The focus is increasingly on audit of internal control systems (as stipulated in paragraph four of Article 8 in the ORAG law on powers and duties of ORAG) rather than of individual transactions. With the help of external technical assistance (CIDA), an Ethiopian Audit Systems approach has been developed, based on INTOSAI and AFROSAI. Payroll systems, for example, are tested on a sample basis (e.g. looking at personnel files and attendance sheets). ORAG looks at internal audit department reports (PI-21) as part of its work, but does not depend on them, as the internal audit function is still developing and there are still issues concerning capacity (e.g. level of appropriate training).

(ii) Timeliness of submission of audit reports to legislature

By law, ORAG should audit the annual accounts of ANRS (i.e. regional bureaus and woreda governments) within 8 months of their submission by the Regional Government, and then submit its opinion to BOFED, which then submits to the Regional Council. No deadline is stipulated for the submission of audit reports (mainly covering bureaus and offices), to the

Regional Council.[21] In practice, the time between the receipt by ORAG of the annual accounts from BOFED to the submission of audited accounts to the Regional Council is more than one year; The annual accounts for 2007/08 (EFY 2000) were submitted to ORAG in December 2008 (EFY 2001). ORAG started auditing these in September 2009 (EFY 2002) and submitted these to the Regional Council in June, 2010, about 18 months following their receipt. The annual accounts for 2008/09 (EFY 2001) were submitted to ORAG in March, 2010. ORAG informed the team that it would take about 6 months to audit these (beyond the time period covered by this study).

In the case of audit reports of public bodies, these tend to be submitted to the Regional Council between 3 and 8 months following the end of the financial year (due to resource constraints, they cannot all be done at once).

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

ORAG first discusses its audit findings with the relevant staff of the audited organization (exit conference), who then discuss with their management, which responds to ORAG. ORAG returns after 15 days to determine what actions have been taken by management to address issues raised by ORAG. If actions have not yet fully been taken, ORAG returns a second time 15 days later. ORAG then produces its opinion, and sends its report to BOFED, including the Management response. BOFED sends the report to the Regional Council.

According to the second to last annual report prepared by ORAG (covering April EFY 2000 to March EFY 2001, see footnote), out of 117 audit reports prepared, 67 auditees responded in a timely manner, 32 had delayed their response and 13 did not respond; the reports cover woreda governments also, however, and separating out the response of regional bureaus is problematic. The response rate has much improved over the last few years. The ORAG informed the assessment team at the September 2010 workshop that the response rate had improved to 85-90 percent in connection with the April EFY 2001-March EFY 2002 period (i.e. April 2009-March 2010). The annual report indicates the extent to which the auditees made a formal response, rather than the extent to which they have actually addressed the findings of the audit reports. The following year's audit reports check on the status of implementation of the recommendations made by ORAG.

Score	Minimum Requirements	Justification	Information Sources
C+ ▲(M1)			
B	*(i) Scope/nature of audit performed (incl. Adherence to auditing standards).* ARG entities (regional bureaus) representing at least 75 percent of total ARG expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are	The larger entities (on the basis of higher risk), representing 65 percent of regional bureau expenditure, are covered every year and about half of the smaller entities are covered every other year (in effect, 75-85% of all ARG expenditure; the proportion would be about 60 percent if all woreda expenditures were included in the calculation). Full financial audits and compliance audits are conducted, broadly in compliance with INTOSAI standards (Ethiopia received TA in support of developing its INTOSAI/AFROSAI compliant standards, with the main focus on systemic	-- Auditor General, Amhara ORAG (as reconfirmed at September 2010 workshop). -- Last ORAG Annual Report (covering April 2008-March 2009). -- Proclamation governing ORAG. anrsoag.gov.et

[21] ORAG's annual report covers the period April-March (3 months of one financial year, nine months of the next financial year).

Score	Minimum Requirements	Justification	Information Sources
	performed and generally adhere to auditing standards, focusing on significant and systemic issues. .	issues). Audit reports are available on the ORAG's website following their submission to the Regional Council (the website exists, but appears not to be currently functioning). The content is also disseminated on the radio...	
C▲	*(ii) Timeliness of submission of audit reports to the legislature.* Audit reports are submitted to the legislature within 12 months of the period covered (for audit of financial statements from their receipt by the auditors).	The time lag has fallen in recent years. The audit of the annual accounts for 2007/08 (EFY 2000) will be submitted to the Regional Council in June, 2010, (18months after their receipt). The audit of the annual accounts for 2008/09 (submitted to ORAG in March 2010) is planned to be completed by Septermber/October 2010, Audit reports covering bureaus are usually finalized and submitted to Regional Councils between 3 and 8 months after the end of the financial year. The average time lag is therefore about 10 months.	-- Amhara Auditor General.
B▲	*(iii) Evidence of follow-up on audit recommendations* A formal response is made in a timely manner, but there is little evidence of systematic follow-up.	About 60 percent of the findings of ORAG's audit reports are formally responded to by the management of the auditees, but the reports do not indicate the extent to which the findings are actually addressed (the ORAG informed the team at the September 2010 workshop that the response rate had increased to 85-90 percent for the period April EFY 2001-March EFY 2002), .	-- Amhara Auditor General -- Most recent ORAG Annual Report (April 2008-March 2009) submitted to Regional Council.

3.7.2: Legislative scrutiny of the annual budget law

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

The Budget and Finance Committee (BFC) of the Amhara Regional Council scrutinizes both the draft budget and the audit reports prepared by ORAG. The Committee has five members. The assessment team met with the Chairman of the Committee, the only full-time member (the others work on an ad-hoc basis and are given 15 days notice to attend meetings). A Public Accounts Committee is to be established next year. The Committee is to be split into two committees next year. The BFC is a member of the East African Association of Public Accounts Committees and the chairman attended a conference of the Association in Tanzania during 2009 (funded by World Bank).

(i) Scope of the Legislature's Scrutiny

The BFC scrutinizes the draft budget proclamation) submitted to it by the Regional Cabinet. The draft budget documentation contains revenue and expenditure estimates plus details of budget subsidies to woredas. The macro-fiscal framework is not included in the budget documentation, nor any policy analysis underpinning the draft estimates.

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

The Committee's procedures (and for the Council as a whole) are governed by regulations and guidelines (Regulation 11) derived from Proclamation 190 approved in 2006 (EFY 1998): --"Duties and Powers of the Regional Council and Committees"-- itself derived from the Constitution of Amhara Regional State. As part of the procedure for scrutinizing the draft budget, BOFED is invited to explain the budget and sector bureau managers are also invited for discussions. The Committee then presents the draft budget to the Council-at-large. Council members may raise questions and BOFED is requested to reply.

The procedures are comprehensive but are not always fully understood and respected. The Chairman of the BFC is trying to raise awareness.

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

The BFC receives the budget proposals at the end of May and has one month to review before the end of the fiscal year (the budget has to be approved by the end of the fiscal year). The Chairman considers that this does not provide enough time for review, given that members reside all over the region.

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

ARG follows the Federal Government system, as prescribed in the Financial Administration Proclamation 57 (2003, EFY 1996), now replaced by the Financial Administration Proclamation 648 (2009, EFY 2002), and the annual Budget Proclamations. In-year amendments to the budget without ex-ante approval by the legislature are permitted for transfer within public bodies and transfers between public bodies (the latter requiring prior approval of the Regional Cabinet) that do not result in an increase in overall spending. *Ex-ante* approval by the legislature of amendments is only required for supplementary budgets that would result in an overall spending increase. There is at most one supplementary budget a year that is presented to the Regional Council. As noted in PI-16 (iii) reallocations between public bodies during the year are extensive.

Score	Minimum Requirements	Justification	Information Sources
C+ (M1)	Listed in PEFA Framework		
C	*(i) Scope of the legislature's scrutiny* The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.	The documentation submitted to Budget and Finance Committee (BFC) consists only of the detailed revenue and spending estimates for the next financial year and the budget allocation formula (for allocating subsidies between the woreda governments).	-- Chairman, BFC, Amhara Regional Council. -- Head of BOFED
C	*(ii) Extent to which the legislature's procedures are well-established and respected.* Some procedures exist for the legislature's budget review, but they not comprehensive and only partially respected.	Procedures are governed by Proclamation 190/2006 (itself derived from the Constitution of Amhara Regional State) and, under this, as part of Regulation 11 (2006), the "Duties and Powers of Councils and Committees". The procedures are not always understood/respected, and the Chairman of BFC is trying to raise awareness in this regard. A rating of B is too high, as this requires full respect.	-- Chairman, BFC -- Document: "Duties and Powers of Councils and Committees".
B	*(iii) Adequacy of time for the legislature to provide a response to budget proposals.* The legislature has at least one month to review the budget proposals.	BFC receives the budget proposals at the end of May, allowing one month for review and eventual approval of the budget before the end of the fiscal year. The Chairman of BFC considers that the time allowed is insufficient.	-- Chairman, BFC
B	*(iv) Rules for in-year amendments to the budget*	The rules are contained in the Financial Administrative Proclamations, derived from the	-- Head, BFC. -- The proclamations

Score	Minimum Requirements	Justification	Information Sources
	without ex-ante approval of the legislature. Clear rules exist for in-year amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.	Federal Government Proclamations of 2003 (No. 57, EFY 1996) and 2009 (No. 648, EFY 2002) and the annual Budget Proclamations. As indicated in PI-16 (iii), in-year reallocations between public bodies ("budget transfers" according to the terminology in the proclamations) are extensive. The requirement of *ex-ante* approval by the Regional Council of supplementary budgets is met.	indicated in the column to the left. --PI-16 (iii) assessment.

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

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved.

(i) Timeliness of examination of audit reports

Audit reports are examined shortly after their receipt, usually within 15 days. It took 15 days after receipt to examine the 2006/07 (EFY 1999) annual financial statements.

(ii) Extent of hearings on key findings

Bureaus where specific issues have been raised in the audit reports are questioned by BFC, sometimes with the participation of the President. The media are invited to attend the hearings. Examples of specific issues raised in recent audit reports are: (i) suspected embezzlement in the water resources bureau, eventually resulting in the imprisonment of a staff member; (ii) integrity of property management systems; the BPR exercises had resulted in increased emphasis being placed on property management and BFC requested public bodies to provide greater emphasis on this; the increased emphasis is also reflected in the new Federal Government procurement proclamation, which is in the process of being reflected at regional government level (PI-19); and (iii) procurement of video equipment by the Public Media Agency under restrictive tendering conditions, when open tendering should have been used; embezzlement was suspected.

The Chairman of BFC considers that there is room for significant improvement in the timeliness and quality of hearings.

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

Recommendations are prepared by BFC and the President submits these to the public bodies concerned, which are required to report back within 15 days. Response time has improved considerably in recent years. It used to be the case that public bodies would not respond to either the President or ORAG. Now, out of the 20 public bodies to whom letters were sent by the President, 19 implemented the recommendations contained in the letters. This is also because ORAG is checking that the recommendations have been implemented. ORAG's quarterly reports to the Regional Council note these improvements.

Score	Minimum Requirements	Justification	Information Sources
B+ (M1)	Listed in PEFA Framework		
A	*(i) Timeliness of examination of audit reports by the legislature.* Scrutiny of audit reports is usually	Audit reports are examined within 15 days of receipt.	-- Chairman, BFC, Amhara Regional Council.

Score	Minimum Requirements	Justification	Information Sources
	completed by the legislature within 3 months from receipt of the reports.		
B	*(ii) Extent of hearings on key findings undertaken by the legislature.* In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received qualified or adverse audit opinion.	Based on information provided by the Chairman of BFC. His opinion is that the scope for improvement is significant.	-- Chairman, BFC, Amhara Regional Council.
A	*(iii) Issuance of recommended actions by the legislature and implementation by the executive.* The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.	Based on information provided by the Chairman of BFC and by ORAG.	-- Chairman, BFC, Regional Council. -- ORAG report to Regional Council (referred to under PI-28).

3.8. Donor practices

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

3.8.1. D-1: Predictability of Direct Budget Support

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

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

Amhara region receives a significant amount of aid from several donors, as indicated in the following table prepared by BOFED's Development Cooperation Department (DCD) for 2007/08 (posted on BOFED's website).

Table 5: Donor aid to Amhara Region, 2007/08 (ETB billions)

Donor Name	Planned Expenditure	Actual Expenditure
Global Fund	110.3	106.5
Sweden	94.1	89.6
World Bank	171.9	78.6
UN Agencies **1/**	95.2	71.7
Germany	27.4	25.7
Canada	58.0	22.0
Finland	30.9	21.2
Other donors **2/**	65.1	42.1
TOTAL	652.9	457.4

1/ The bulk is from UNICEF.
2/ TDP, ADB, Austria, USA, France, Norway, EU, IFAD (in declining order of magnitude according to actual expenditure).

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

A large proportion of donor aid is provided to Amhara Region through Channel One, that is assistance and loans provided to MOFED, which then channels this to BOFED (but the loans are on the account of MOFED) and assistance provided directly to BOFED by donors, which BOFED then passes on to sector bureaus. The proportion is not exactly known, as BOFED has incomplete information on the amount of donor aid provided through Channel 2 (donor aid provided to sector line ministries at federal level, which then channel the funds directly to sector bureaus at regional level, plus donor aid provided directly to sector bureaus). The Development Cooperation Department in BOFED estimates that at least 60 percent of donor aid is provided through Channel 1, though the Financial and Property Administration Department in BOFED believes this proportion is closer to 90 percent. The proportion is growing; for example, assistance from UN agencies (e.g. UNICEF) used to be provided through Channel 2, but now is provided through Channel 1.

A very small proportion of assistance is provided through Channel 3 – donor aid directly to projects, without going through sector bureaus. This includes NGO projects and aid-in-kind.

According to the Development Cooperation Department (DCD), 12 bilateral and 12 multilateral agencies fund 48 programmes and projects in Amhara. The largest bilateral agencies operating in Amhara are SIDA, Austria and FINNIDA, providing about one-third of all Channel 1 donor aid to Amhara. About 160 NGO-supported projects are being implemented. Under NGO coordination guidelines, NGOs are supposed to report on their operations to ARG (this information helps ARG plan its own expenditure). Since January 2009, reporting has been through BOFED, previously it was through another bureau.

Guidelines for Donor Fund Coordination and Management in Amhara Region were published by ARG in 2005. The objective is to provide guidance on the regular reporting of work plans, budgets and the performance thereof. Development of work plans by bureaus, at the initial stage of budget preparation, takes into account donor plans; workshops may be held to discuss these. The estimates of project expenditure provided by the donors are included in the draft budget, though, for the most part, not in a format consistent with the government's budget classification ([22]); the estimates include donor projects the funding of which is provided through Channel 2.

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

The donors referred to under dimension (i) who provide their aid through Channel 1 provide reports on budget execution, but, for the most part, also not in a format consistent with the government's budget classification system. Reports on budget execution are not available for the projects for which funding is provided through Channel 2.

Score	Minimum Requirements	Justification	Information Sources
C (M1)	As listed in PEFA Framework		
C	*(i) Completeness & timeliness of budget estimates by donors for project support* At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior to its start. Estimates may use donor classification and not be consistent with the government's budget classification system.	Information provided by BOFED's Development Cooperation Department (DCD). Although exact figures are not available for aid provided through Channel 2, DCD believes at least 60 percent of aid is provided through this channel (Financial Administration and Property Department in BOFED believes the proportion is closer to 90 percent. For the most part, the information provided is on an aggregate basis and not according to the IBEX budget classification codes.	-- DCD, BOFED. -- Budget Performance Reports. -- Monthly trial balance sheets. -- Detailed budget documents -- Guidelines for Aid Coordination and Management in Amhara Region, BOFED, 2005. -- Donors' Profile, DCD, BOFED, July 2007.
C	*(ii) Frequency & coverage of reporting by donors on actual project flows for project support* Donors provide quarterly reports within two months of end-of-quarter on all disbursements made for at least 50% of the externally-financed project estimates in the budget. The information does not necessarily provide a breakdown consistent with the government's budget classification.	Information provided by BOFED. Only projects funded under Channel 1 are reported on, and, for the most part, the reports do not use the IBEX budget classification codes.	-- Budget performance reports, -- Monthly trial balance sheets.

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

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

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

[22] The estimates are aggregate amounts for each project and not by IBEX codes. In a few cases the estimates are dis-aggregated according to "equipment", "technical assistance", "works", but such disaggregation is not consistent with the government's system, even in broad terms. See "Donors Profile", 2006/07, prepared by Department of Development Cooperation, BOFED, July 2007; is posted on the BOFED website..

(BOFED considers that ARG is three quarters of the way there) though donors still mainly use their own procurement systems. Donors also tend to recruit their own external auditors, mainly because of manpower constraints in the Office of the Regional Auditor General (ORAG) rather than capability constraints (PI-26 indicates that within the confines of its capacity constraints the external audit function is generally performing well). [23]

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

3.9. Predictability of Transfers from Federal Government

This indicator (HLG-1) assesses the predictability of funding from the Federal Government. Most of the funding is in the form of the block grant. This is very predictable, the amount provided being equal to the budgeted amount. The disbursement during the year is also very predictable, as it is provided in 12 equal monthly installments. Other funding is in the form of assistance and loans channeled to BOFED, which then transfers the funding to sector bureaus (Channel 1 funding). This is not so predictable. Actual amounts transferred may be less than budgeted for, due to delays in disbursements by donors (perhaps because conditionalities attached to the assistance are not being met). However, this mode of funding is a very small proportion of total transfers to woredas.

The rating is A.

[23] Funding for PBS and Public Safety Net Project is provided using government systems, but this is at federal government level.

4. Government reform process

4.1 Recent and on-going reforms

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

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

4.2 Institutional factors supporting reform planning and implementation

Government leadership and ownership

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

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

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

Annex A: Calculation of Performance Indicator Two on Budget Variance

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

`	Data for year =	2006/7				
Code	**Administrative Unit head**	**Budget**	**Actual**	Difference	Absolute	%
311	Education	68,832,388	112,004,007	43,171,619	43,171,619	62.7%
341	Health	56,327,303	73,786,483	17,459,180	17,459,180	31.0%
211	Agriculture & Rural Development	60,879,264	45,337,658	(15,541,606)	15,541,606	25.5%
122	Supreme Court	40,257,700	45,194,860	4,937,160	4,937,160	12.3%
129	Prison Administration	41,450,000	47,218,996	5,768,996	5,768,996	13.9%
127	Police Commission	38,490,000	50,646,406	12,156,406	12,156,406	31.6%
313	Tech. & Vocational Education College	34,383,309	37,816,580	3,433,271	3,433,271	10.0%
213	Agriculture Research Institute	23,397,000	25,542,462	2,145,462	2,145,462	9.2%
221	Water Resources Development	43,535,000	49,891,422	6,356,422	6,356,422	14.6%
273	Rural Roads Authority	24,126,000	26,040,919	1,914,919	1,914,919	7.9%
152	Finance & Economic Development	15,828,000	11,301,077	(4,526,923)	4,526,923	28.6%
121	Justice	15,600,000	16,788,205	1,188,205	1,188,205	7.6%
319	Management Institute	15,409,000	8,665,246	(6,743,754)	6,743,754	43.8%
112	Regional Council	11,009,000	13,819,799	2,810,799	2,810,799	25.5%
318	Capacity Building	6,425,000	5,558,221	(866,779)	866,779	13.5%
231	Trade, Industry & Urban Development	5,276,000	5,409,788	133,788	133,788	2.5%
113	Auditor General	4,610,000	3,960,370	(649,630)	649,630	14.1%
156	Revenue	4,780,000	5,267,108	487,108	487,108	10.2%
331	Youth & Sport	4,692,000	6,275,200	1,583,200	1,583,200	33.7%
242	Culture & Tourism	4,049,000	5,633,615	1,584,615	1,584,615	39.1%
	21 (= sum of rest)	106,393,051	77,811,184	(28,581,867)	28,581,867	26.9%
	total expenditure	625,749,015	673,969,606	48,220,591	48,220,591	7.7%
	composition variance	625,749,015	673,969,606		162,041,707	25.9%

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

	Data for year =	2007/8				
Code	**Administrative Unit**	**budget**	**actual**	difference	Absolute	percent
311	Education	93,133,850	125,853,624	32,719,774	32,719,774	35.1%
341	Health	82,065,249	101,966,176	19,900,927	19,900,927	24.3%
211	Agriculture & Rural Development	62,853,683	58,529,159	(4,324,524)	4,324,524	6.9%
122	Supreme Court	58,202,808	83,716,302	25,513,494	25,513,494	43.8%
129	Prison Administration	53,887,000	71,650,401	17,763,401	17,763,401	33.0%
127	Police Commission	43,090,000	83,343,116	40,253,116	40,253,116	93.4%
313	Tech. & Vocational Education College	42,692,884	48,634,359	5,941,475	5,941,475	13.9%
213	Agriculture Research Institute	27,080,845	33,192,762	6,111,917	6,111,917	22.6%
221	Water Resources Development	42,106,000	69,867,950	27,761,950	27,761,950	65.9%
273	Rural Roads Authority	79,608,650	63,440,136	(16,168,514)	16,168,514	20.3%
152	Finance & Economic Development	50,993,760	16,709,530	(34,284,230)	34,284,230	67.2%
121	Justice	20,057,312	16,078,466	(3,978,846)	3,978,846	19.8%
319	Management Institute	19,350,500	26,570,056	7,219,556	7,219,556	37.3%
112	Regional Council	21,100,577	33,296,571	12,195,994	12,195,994	57.8%
318	Capacity Building	8,209,000	7,242,863	(966,137)	966,137	11.8%
231	Trade, Industry & Urban Development	5,805,000	6,896,159	1,091,159	1,091,159	18.8%
113	Auditor General	5,420,400	5,290,440	(129,960)	129,960	2.4%
156	Revenue	5,753,000	8,144,773	2,391,773	2,391,773	41.6%
331	Youth & Sport	12,516,368	8,767,019	(3,749,349)	3,749,349	30.0%
242	Culture & Tourism	7,266,364	7,175,322	(91,042)	91,042	1.3%
	21 (= sum of rest)	214,370,005	109,911,738	(104,458,267)	104,458,267	48.7%
	total expenditure	955,563,255	986,276,923	30,713,668	30,713,668	3.2%

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

	Data for year =	2008/9				
	Administrative Unit	**budget**	**actual**	difference	absolute	percent
311	Education	133,917,381	108,562,280	(25,355,101)	25,355,101	18.9%
341	Health	116,091,812	115,062,731	(1,029,081)	1,029,081	0.9%
211	Agriculture & Rural Development	73,309,003	56,758,675	(16,550,328)	16,550,328	22.6%
122	Supreme Court	98,574,304	94,238,792	(4,335,512)	4,335,512	4.4%
129	Prison Administration	71,180,396	89,788,817	18,608,421	18,608,421	26.1%
127	Police Commission	77,787,238	85,830,826	8,043,588	8,043,588	10.3%
313	Tech. & Vocational Education College	74,842,711	114,616,645	39,773,934	39,773,934	53.1%
213	Agriculture Research Institute	31,351,194	32,059,843	708,649	708,649	2.3%
221	Water Resources Development	39,346,888	45,079,627	5,732,739	5,732,739	14.6%
273	Rural Roads Authority	358,069,478	111,102,034	(246,967,444)	246,967,444	69.0%
152	Finance & Economic Development	54,514,663	20,602,409	(33,912,254)	33,912,254	62.2%
121	Justice	19,778,520	19,345,922	(432,598)	432,598	2.2%
319	Management Institute	7,471,577	16,519,439	9,047,862	9,047,862	121.1%
112	Regional Council	23,723,762	26,301,436	2,577,674	2,577,674	10.9%
318	Capacity Building	12,622,253	14,489,978	1,867,725	1,867,725	14.8%
231	Trade, Industry & Urban Development	7,536,047	7,228,331	(307,716)	307,716	4.1%
113	Auditor General	6,432,000	5,959,827	(472,173)	472,173	7.3%
156	Revenue	7,487,158	7,023,343	(463,815)	463,815	6.2%
331	Youth & Sport	34,197,048	14,411,896	(19,785,152)	19,785,152	57.9%
242	Culture & Tourism	8,128,289	7,033,302	(1,094,987)	1,094,987	13.5%
	21 (= sum of rest)	230,987,985	191,121,698	(39,866,287)	39,866,287	17.3%
	total expenditure	1,487,349,707	1,183,137,851	(304,211,856)	304,211,856	20.5%
	composition variance	1,487,349,707	1,183,137,851		476,933,039	32.1%

Table A4: Budgeted and Actual Revenue, EB

	2006/07	2007/07	%	2007/08	2007/08	%	2008/09	2008/09	%
	Budget	**Actual**	**Diff.**	**Budget**	**Actual**	**Diff.**	**Budget**	**Actual**	**Diff.**
Domestic Revenue	**404,835,000**	**394,249,925**	**-2.6**	**445,000,000**	**550,130,575**	**23.6**	**600,000,000**	**847,660,731**	**41.3**
Tax revenue	***258,488,520***	***286,700,242***	***10.9***	***249,473,066***	***381,148,594***	***52.8***	***473,458,685***	***669,863,738***	***41.5***
Direct Taxes	*231,687,020*	*249,992,264*	*7.9*	*220,026,702*	*352,865,241*	*60.4*	*401,799,172*	*582,895,412*	*45.1*
Income, Profit & Capital Gains	194,307,020	222,418,152	14.5	213,497,837	341,806,864	60.1	400,584,108	581,540,799	45.2
Other direct taxes	37,380,000	27,574,112	-26.2	6,528,865	11,058,377	69.4	1,215,064	1,354,613	11.5
Indirect Taxes	*26,801,500*	*36,707,978*	*37.0*	*29,446,364*	*28,283,354*	*-3.9*	*71,659,513*	*86,968,326*	*21.4*
VAT from sales of goods							9,359,608	3,078,993	-67.1
VAT from services							4,029,308	2,878,836	-28.6
Excise locally made goods (lmg)	5,636,000	9,698,645	72.1	6,192,642	143,505	-97.7	1,080	111,655	10238
Sales turnover tax on lmg	8,950,500	13,725,277	53.3	9,834,500	15,403,952	56.6	38,640,342	57,941,807	50.0
Services sales tax	12,215,000	13,284,055	8.8	13,419,222	12,735,897	-5.1	8,164,820	10,161,043	24.4
Other indirect taxes							11,464,355	12,795,992	11.6
Non-tax revenue	***146,346,480***	***107,549,684***	***-26.5***	***195,526,934***	***168,981,980***	***-13.6***	***126,541,315***	***177,796,993***	***40.5***
Recurrent	146,346,480	107,352,454	-26.6	195,526,934	161,156,297	-17.6	125,693,727	177,553,418	41.3
Capital revenue		197,230			7,825,684		847,588	243,575	-71.3

Annex B: List of People Met

Amhara Region
Ato Girma Tesfaye Abayneh, Head, BOFED
Ato Mesfin G/medhin Birru, Deputy Bureau Head, BOFED
Ato Tilahun, Head, Financial Administration and Property Management Department, BOFED
Ato Ahmed Abtew Asfaw, General Manager, Rural Road Authority
Ato Assefa W/Senbet Abegaz, President, Bahir Dar Chamber of Commerce
Head of FAPMD, Education Bureau
Head of Internal Audit Department, Education Bureau
Head of Planning and Budgeting Department, Education Bureau
Chairman, Budget and Finance Committee, Regional Council
Ato Gared Lebese, Auditor General, ORAG
Head, Revenue Authority

All Regions
Mr. Ephraim Zewdie, Economist, EU Delegation, Addis Ababa
Ms. Benedetta Musillo, Economic Attache, EU Delegation, Addis Ababa
Mr. Christoph Wagner, Head of Section, Economic, Trade, Social, Regional Integration, EU Delegation, Addis Ababa
Ato Hiwot Mebrate, Social Development Advisor, Embassy of Ireland, Addis Ababa.
Mr. Hans Poley, First Secretary Economic Affairs, Netherlands Embassy, Addis Ababa
Dr. Paul Dorsey, Dulcian, Ethiopia (IBEX Project)
Dr. Stephen Peterson, former project manager of DSA project.