Amhara Regional Government

Repeat Public Expenditure and Financial Accountability Assessment (PEFA)

June 2015

Currency and Exchange Rates
Currency unit = Ethiopian birr (ETB)

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

Ethiopian Fiscal Year (EFY): July 8–July 7
EFY 2005 = Gregorian FY 2013 (July 1, 2012–June 30, 2013)
In this document the term *FY* refers to the Gregorian fiscal year and is not the same as the term *EFY*.

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Acronyms and Abbreviations

AGA	Autonomous Government Agency
AmRA	Amhara Revenue Authority
ANRS	Amhara National Regional State
ARG	Amhara Regional Government
ARRA	Amhara Rural Roads Authority
BI	Budget Institution (ministries, agencies, institutions, and other budgetary units)
BFC	Budget and Finance Committee
BoE	Bureau of Education
BoH	Bureau of Health
BoFED	Bureau of Finance and Economic Development
CBE	Commercial Bank of Ethiopia
COFOG	Classification of Functions of Government
CRC	Complaints Review Committee (procurement)
CSA	Central Statistics Agency
DP	Development Partner
DSA	Debt Sustainability Analysis
EBO	Extra Budgetary Operation
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Program
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian birr
FTAP	Financial Transparency and Accountability Program
FY	Financial Year or Fiscal Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics (IMF)
GPP	Grace Period Payables
GTP	Growth and Transformation Plan FY 2010/11–2014/15
HLG	Higher-Level Government
IBEX	integrated budget and expenditures
IAD	Internal Audit Department
IAU	Internal Audit Unit
ID	Inspection Department
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
JBAR	Joint Budget and Aid Review
MDG	Millennium Development Goal
MEFF	Macro Economic and Fiscal Framework
MoFED	Ministry of Finance and Economic Development
MTEF	Medium-Term Expenditure Framework
NA	Not Applicable (in PEFA assessment)
NGO	Non-Governmental Organization
NR	not rated (by PEFA, for lack of information)
NS	not scored (by PEFA, includes NR and NA)
ORAG	Office of the Regional Auditor General
PAC	Public Accounts Committee
PBS	Promotion of Basic Services Program (previously the Protection of Basic services Program)
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability

PFM	Public Financial Management
PI	performance indicator (PEFA)
PSCAP	Public Sector Capacity Building Program
RFQ	Request for Quotation
RRA	Rural Roads Authority
SIGTAS	Standard Integrated Government Tax Administration System
SNNPR	Southern Nations and Nationalities Peoples’ Region
TAC	Tax Appeal Commission
TIN	Taxpayer Identification Number
ToFED	Town Administration Finance and Economic Development Office
TOR	Terms of Reference
TSA	Treasury single account
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children’s Fund
USAID	U.S. Agency for International Development
VAT	Value-Added Tax
WoFED	Woreda Office of Finance and Economic Development
YTD	Year to Date

Summary Assessment

The first PEFA assessment of the Amhara Regional Government (ARG) was made in 2010, one of six regional government assessments carried out that year. This repeat assessment of ARG, for which the fieldwork was conducted during April 22–25, 2014, is part of a broader exercise, which also covers the national government (repeat), Addis Ababa (repeat), Oromia (repeat), SNNPR (repeat), Tigray (new), and Somali region (new), under the oversight of MoFED and financed by the World Bank.

A summary of scores and explanation of performance changes is provided in table SA.2 at the end of this chapter. The performance indicators (PIs) and their various dimensions are explained fully in Chapter 3.

Summary

Public Financial Management (PFM) system performance in Amhara has changed little since the 2010 PEFA assessment in terms of PEFA scores.

- Scores have increased for seven PIs (1, 3, 8, 10, 17, 21, 28).
- Scores are deemed to have remained unchanged for 19 PIs (5, 6, 7, 11, 12, 13, 14, 15, 16, 18, 20, 22, 23, 24, 25, 26, 27, D-3, Higher-Level Government [HLG]-1), nine of these already having high ratings in the 2010 assessment (PI 5, 11, 13, 17,18, 20, 22, 28, HLG-1); the number of unchanged ratings take into account some misscores in the 2010 assessment. PIs-7 and 22 seem to have gone down, but were over-scored in 2010 and performance is unchanged. D-3 appears to have an increased score, but performance is unchanged.
- Though the score for D-2 seems lower, performance is unchanged. Scoring of D-1 was not applicable in either assessment.
- For two of the PIs, the methodology has been changed, and comparison of scores is not possible (2, 19).
- Comparison is not possible in the case of PI-9, due to a change in scope.
- Though the score seems unchanged, performance fell under PI-4 (extent of expenditure arrears) related to the establishment of the Millennium Development Goals (MDG) Fund; the fund's operating modalities tended to cause contractors to submit payment certificates late in the fiscal year.
- For PIs 7, 14, and 23, a strengthening process is in place, as indicated by an upward pointing arrow (included in the "unchanged" scores).

In terms of the distribution of scores, the number of scores above C+ were 12 in the 2010 assessment (taking into account possible misscores), and 15 in the 2014 assessment.

Budget Credibility

The budget appears credible in aggregate terms if allowance is made for MDG fund-related advances for capital expenditures that had not been retired prior to the end of the fiscal year. If this allowance had not been made, the score for PI-1 would have misleadingly been D, not B. Long-established robust budget preparation processes (high ratings for PI-11) contribute to credibility.

Good revenue performance (PI-3) and the predictability of the block grant from the Ministry of Finance and Economic Development (MoFED) have contributed to credibility, except in FY

2012/13, when the revenue forecast was overly optimistic. Taxpayer education programs, registration drives (including through biometric finger printing and associated generation of taxpayer identification numbers), and strengthening of the tax audit (PIs 13-14) have contributed to strengthening performance. In particular, the introduction of block management schemes (PI-13 dimension (ii) in table SA.2) is helping to strengthen voluntary compliance and thereby reduce the extent of tax arrears (PI-15).The establishment of city administrations in FY 2010/11, with the power to raise their own revenues, also appears to have contributed. The block grant from MoFED comprises the bulk of ARG's financial resources, and the monthly predictability of its receipts strongly supports budget credibility (HLG-1).

Budget preparation processes are strong when measured under PI-11, but at first sight, the budget appears to lack credibility in disaggregated terms, with PI-2 scoring D+. The mid-year adjusted budget is considered by Amhara Regional Government (ARG) as more important, however, in terms of measuring budget credibility. The score is low even after taking into account rapidly increasing MDG Fund–related advances to the Promotion of Basic Services Program (PBS) sectors. As with other regions, ARG claims that uncertainties in domestic revenue outcomes this financial year and external finance resources expected next year, combined with uncertainties in cost estimation, result in budget adjustments after the budget is approved. By the time of the mid-year review of budget performance, it has become clear which budget institutions (BIs) are underperforming and which are over performing. Following consultation with BIs, BoFED is then able to reallocate budgets between BIs and allocate the expenditure contingency/reserve. Underperformers do not lose, while over performers gain.

The budget preparation process has laid the groundwork (high rating for PI-11) for establishing a robust medium-term perspective to budgeting (currently a low rating for PI-12) over the next few years. Such a perspective would strengthen the linkages between spending and policy objectives and also help to firm up both cost and revenue estimates in support of the annual budget preparation process. The Federal Government is leading the way through its establishment of a program budgeting framework, which is currently being piloted in Southern Nations and Nationalities Peoples' Region (SNNPR). Capacity constraints have slowed the pace of adoption of this framework.

Budget execution systems continue to support budget credibility by making financial resources available for spending according to the budget when needed and preventing significant payments arrears and mis-use of funds. BIs are able to commit funds over a multimonth time horizon with a high degree of assurance that funds will be available for payments. This has been facilitated not only by high predictability of financial resource availability but by robust cash flow forecasting (PI-16) and cash management (Treasury Single Account-Z account system, PI-17), strong internal controls (PIs 18–20), and minimal fiscal risk posed by public enterprises and woreda governments (PI-9).

Internal Controls and Audit

Payroll controls (PI-18) continue to be strong (unchanged overall rating of B+).

Expenditure commitments (PI-20 (i)) are formally controlled by BIs according to the remaining uncommitted ("unencumbered") budget balance, as specified by the Financial Administration Proclamation. Commitments with a time horizon for payments up to three months are also controlled by the rolling monthly cash expenditure limits derived from the cash flow forecasting system (PI-16 (i)). Proposed commitments with a longer term payments horizon (e.g., bulk purchases, capital projects) are formally controlled according to the remaining uncommitted budget balance, but the timing of the associated payments is covered by BIs' cash flow forecasts, which underpin the cash expenditure limit for the months for which payments are due.

The other nonpayroll internal control systems are comprehensive (PI-20 (ii)–(iii), unchanged B rating). The understanding of these systems has strengthened in recent years through the issuance of guidelines and directives and the running of training programs for staff. The internal control manual (no. 11/2011) is a good and easy-to-understand reference guide for management and staff, but training is still routinely needed due to high employee turnover. Although business process reengineering (BPR) led to the streamlining of some internal controls, some may still be unnecessarily cumbersome. For example, the long outstanding grace period for payables referred to under PI-4 may have resulted from unnecessary delays due to excessive authorization procedures for the approval of construction works.

Generally, rules and regulations are respected due to a historical culture of compliance and administrative penalties for noncompliance. The Office of the Regional Auditor General (ORAG) and internal audit departments, however, report common areas of noncompliance (e.g., not maintaining fixed assets and stock control records, weak follow-up on receivables and advances). The strengthening of internal audit function is helping to improve compliance.

Procurement (PI-19) systems have strengthened, open tendering now being the norm for procurement, and a complaints review mechanism is now in place. Open tendering helps keep costs under control and increases the likelihood of actual nonsalaries expenditures being close to budgeted amounts. The D rating for dimension (ii) on the extent of use of competitive tendering mainly reflects a data collation problem—the regulatory and monitoring process still not being fully established—rather than a control problem. The relevant core process in the Bureau of Finance and Economic Development (BoFED) is due to be converted into an independent regulatory body, at which point it may be better placed to exercise this function. The D rating for dimension (iv) indicates that the complaints review mechanism is not formally independent of the procurement process. In practice, however, most complaints appear to be resolved at BI level.

The internal audit function (PI-21) has strengthened. Through its monitoring of the performance of internal control systems, it can identify to management any issues with these, the management then being able to take mitigative action. This ideal has not yet been fully achieved, but progress is being made. A major challenge is retaining skilled staff

The potential fiscal risk posed by government entities that fall outside the budget appears to be low (PI-9). The Regional Government owns only a handful of enterprises, which do not require government subsidies and the finances of which are monitored by their parent bureaus and by BoFED. The financial situation of woreda governments is monitored closely by their parent zonal administrations.

Comprehensiveness and Transparency of the Budget

Insufficient comprehensiveness and transparency of the budget are detrimental to credibility, despite considerable strengthening in recent years. The public's ability to hold the government to account for its expenditures is lower than what it could be (low ratings for PIs 6, 7, 23, 24, and 25), although performance has strengthened significantly under PI-10 (availability of fiscal information to the public). True credibility requires that all planned and actual spending on goods and services that the Regional Government has a mandate to provide should be well publicized and be covered in proclaimed budgets, budget execution reports, and annual financial statements to the extent possible. Nontransparency provides opportunity for misallocation of resources.

Strengthening fiscal transparency is a major priority for ARG, as in other regions. The Fiscal Transparency and Accountability Program (FTAP), established in EFY 1999 (FY2006/07) by the Federal Government, has been the main vehicle for strengthening transparency. The General Education Quality Improvement Program (GEQIP) has been another vehicle. Transparency has indeed improved, although this is not yet obviously reflected in the ratings.

The transparency of development partner (DP) funding of projects and programs is a major issue. Significant DP funding is embedded in the block grant to Amhara from MoFED, by virtue of DP support to the PBS program in the form of budget support. By definition this is transparent. Information available to the public on DP-funded projects has been limited and nontransparent (PI-7), however, although transparency has begun to improve. DPs provide substantial assistance to Amhara, all of which ideally would be reflected in proclaimed budgets, executed through the government's standard budget execution procedures, and reported on and accounted for using government procedures.

The most that seems to happen, however, is that some DP-funded projects (so-called Channel 1b, DPs direct to BoFED) are included in proclaimed budgets and, starting in FY2013/14 (EFY 2006) in budget execution reports. The expenditures under these projects are only a small proportion, however, of total ARG expenditures. So-called Channel 2&3 projects and programs (DPs bypass BoFED and provide assistance direct to sector bureaus or to projects or programs) are not included in ARG's annual budgets and budget execution reports. BoFED claims that such assistance is only a small proportion of total assistance to Amhara National Regional State (ANRS), but it is difficult to know this for sure. The amounts involved may well be significantly higher than the amounts being provided semi-transparently under Channel 1b. Transparency has improved to some extent, however, with regard to nongovernmental organization (NGO) operations, which now must report to BoFED.

A number of DP-funded projects and programs (e.g., Public Safety Net Program (PSNP)) are being implemented in ARG under the Federal Government's budget; the funds are channeled to MoFED through so-called Channel 1a. The amounts involved are large. A transparency issue arises, as the public services being delivered under these projects and programs fall under the mandate of ARG. Ideally, these projects and programs should be part of ARG's budget.

Accounting and reporting systems are generally working well, helped by integrated budget and expenditures systems (IBEX), notwithstanding connectivity problems out of the control of ARG. The DPs, however, are, in the main, not using ARG's accounting and reporting systems, resulting in incompleteness of in-year budget execution reports and annual financial statements (PIs 24–25). Starting in EFY 2006 (FY2013/14) some progress is now being made by DPs toward using these systems. A further issue is delays in clearing suspense accounts and advances (PI-22 dimension (ii)), resulting also in incompleteness in the annual financial statements, thus also detracting from transparency).

ARG is not yet using the International Public Sector Accounting Standards (IPSAS) as indicated by a C rating for dimension (iii) under PI-25. It is planning to adopt them in the near future, in line with a very recent decision by the Federal Parliament that IPSAS should be adopted. Compliance with these would help strengthen transparency.

External audit and legislative oversight (PIs 26-28): These functions are important mechanisms for holding the government to account and thus contribute to budget credibility and transparency. The mechanisms appear to be working reasonably well. The rating for PI-26 is unchanged at C+. As with the internal audit function, capacity constraints, partly due to staff departures, have hindered attempts to increase the scope of audit. Coverage has actually fallen, the idea being to focus on quality rather than quantity (lower rating for dimension (i)). The extent of management response has strengthened, due to the increased focus on quality and also the establishment in 2012 of the Audit Findings and Action Taking Committee, consisting of top managers across ARG.

Performance under PI-27 (review of the draft budget) is unchanged, the C rating for dimension (i) holding the rating down due to the Regional Council (RC) having the opportunity to review the draft budget only at the end stage of budget preparation. The procedures for reviewing the draft budget have strengthened, with an increase in rating for dimension (ii) to B from C. Overall performance under PI-28 (review of audit reports) has improved from B+ to A, as the rating for dimension (ii) on the extent of audit hearings improved to A from B.

Crosscutting Issues

Two overarching areas of concern are capacity constraints and Internet connectivity. Significant rates of staff turnover are exacerbating capacity constraints, thereby limiting ARG's ability to implement PFM reforms. Skilled staff appears to be lured away by significantly higher salaries and better working conditions in the private sector and DP agencies. The problem seems particularly acute in relation to the internal and external audit functions (PIs 21, 26), which are strengthening, but the pace of strengthening is being held back.

Internet connectivity seems to be not as good as it was four years ago, bur this is a nationwide issue beyond the control of ARG. Sector bureaus are generally still not hooked up electronically to BoFED through IBEX, so IBEX is being used on a stand-alone basis in bureaus, thereby hindering the timely generation of budget execution reports and accounts. Manual methods are being used, again to an extent. The timely availability of fiscal information to the public via the Internet has been reduced. The expansion of the Standard Integrated Tax Administration System (SIGTAS) is being slowed down, hindering strengthening of revenue administration (PIs 14–15).

Assessment of the Impact of PFM Weaknesses

Aggregate fiscal discipline: Aggregate fiscal discipline is good, as implied by the fiscal outcome table (table 2.1) in Chapter 2, which shows fiscal balances close to zero. The reliable and timely receipt of the block grant from MoFED, comprising the bulk of SNNPR's financial resources, supports aggregate fiscal discipline, but robust expenditure controls are also an important factor. Routine monitoring of the financial situation of state-owned enterprises and woreda governments helps to contain any possible fiscal risk posed by these entities (Pl-9) - a risk that would perhaps put pressure on fiscal discipline if it materialized.

Strategic allocation of resources: The absence of a medium-term perspective to budgeting is hindering the rational strategic allocation of resources (PI-12). As a first step, forward expenditure estimates need to be prepared, showing the projected costs of implementing current levels of service in the future. Fiscally realistically costed sector strategic plans also need to be developed to form the basis for allocating financial resources to "new" spending above the forward estimates.

Operational efficiency: Internal control systems appear to be generally robust (B and B+ ratings for PIs 18 and 20), thus supporting operational efficiency by lowering the risk of wasteful spending and diversion of funds. Open competition in procurement has become the norm, which also supports operational efficiency (PI-19).

PFM Reform Program

Led by MoFED, the Expenditure Management and Control Program (EMCP) has been, and remains, the main vehicle for implementing PFM reforms at all levels of government. A PFM reform-specific donor group, co-chaired at the time of the assessment by DFID and the World Bank, liaises closely with MoFED and organizes financial and technical assistance in support of EMCP implementation. The Joint Budget and Aid Reviews (JBARs) are a further monitoring and coordinating mechanism. This is a platform for federal and regional governments and donor partners to review the reform plans and achievements and to resolve issues.

Chapter 4 elaborates on key PFM reforms already implemented and being implemented over the past few years. These are elaborated on in Chapters 2 and 3.

Role of Development Partners

Apart from playing an important role in supporting PFM reform, development partners (DPs) also finance numerous projects and programs in the regions in support of improvements in basic services. Much of the financing has been through the Protection of Basic Services (PBS) Program, which for the most part is in the form of budget support integrated with the block grants provided by MoFED to regional governments, which then budget for and spend the funds using their PFM systems. Such financing was significantly supplemented through the establishment of the MDG grant in FY 2011/12.

As noted above under the “Comprehensiveness and Transparency of the Budget” subsection, there are transparency issues concerning DP aid being provided through the so-called Channel 2 and Channel 3 programs, particularly the latter, as indicated by low scores for PI-7 (ii) and D2–D3. This situation has recently started to improve, partly because NGOs are now required to register with BoFED and submit operational and financial reports for monitoring purposes. However, nontransparency is still significant.

Such nontransparency can harm the planning and budgeting efforts of regional and woreda governments due to segmentation of these efforts into two sets of budgets rather than having one unified budget. As noted under “Cross-cutting Issues,” it can also retard capacity development in regional and woreda governments due to skilled personnel being lured away from government by higher salaries.

Strong institutional and human resource capacities are prerequisites for the success of PFM reforms (and governance reforms in general), so erosion of such capacity due to high turnover of skilled personnel may harm the PFM reform effort. In terms of logical sequencing, the reasons for high turnover therefore need to be carefully analyzed and addressed.

Table SA.1 PEFA Performance Indicators for the Amhara Regional Government, 2010–2014

	A. PFM outturns: Credibility of the budget	Score 2010		Score 2014
PI-1	Aggregate expenditure outturn compared to original approved budget	C		B
PI-2	Composition of expenditure outturn compared to original approved budget	NA		D+
PI-3	Aggregate revenue outturn compared to original approved budget	D		C
PI-4	Stock and monitoring of expenditure payment arrears	B+		B+
	B. Key cross-cutting issues: Comprehensiveness and transparency	**Score 2010**		**Score 2014**
PI-5	Classification of the budget	B		B
PI-6	Comprehensiveness of information included in budget documentation	D		D
PI-7	Extent of unreported government operations	B		D+↑ (no change; 2010 (ii) overscored)
PI-8	Transparency of intergovernmental fiscal relations	B+		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	A		C+ Change in scope of (i), comparison not possible.
PI-10	Public access to key fiscal information	C↑		B
	C. Budget cycle	**Score 2010**		**Score 2014**
	C (i) Policy-based budgeting			
PI-11	Orderliness and participation in the annual budget process	A		A
PI-12	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	D+		D+
	C (ii) Predictability and control in budget execution			
PI-13	Transparency of taxpayer obligations and liabilities	A		A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B		B↑
PI-15	Effectiveness in collection of tax payments	D+↑		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+		C+
PI-17	Recording and management of cash balances, debt, and guarantees	B		B+
PI-18	Effectiveness of payroll controls	B+		B+
PI-19	Competition, value for money and controls in procurement	NA		D+↑ (revised methodology)
PI-20	Effectiveness of internal controls for non-salary expenditures	B		B
PI-21	Effectiveness of internal audit	C+		B+
	C (iii) Accounting, recording, and reporting			
PI-22	Timeliness and regularity of accounts reconciliation	B+		B (performance unchanged; (ii) overscored in 2010 assessment)
PI-23	Availability of information on resources received by service delivery units	B		B
PI-24	Quality and timeliness of in-year budget reports	C+↑		C+
PI-25	Quality and timeliness of annual financial statements	C+		C+↑
	C (iv) External scrutiny and audit			

PI-26	Scope, nature, and follow-up of external audit	**C+↑**		**C+↑**
PI-27	Legislative scrutiny of the annual budget law	**C+**		**C+**
PI-28	Legislative scrutiny of external audit reports	**B+**		**A**
	D. Donor practices	**Score 2010**		**Score 2014**
D-1	Predictability of direct budget support	**NA**		**NA**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**C (over-scored)**		**D+ (performance unchanged)**
D-3	Proportion of aid that is managed by use of national procedures	**D**		**At least C (performance unchanged; underscored in 2010 assessment)**
HLG-1	Predictability of transfers from higher-level government	**A**		**A**

Note: ↑ = a PFM-strengthening activity is underway, which, when completed, would result in a higher rating.

Table SA.2 Performance Indicator Ratings and Reasons for Performance Change

	A. Budget credibility	**Score 2010 PEFA**	**Score 2014 PEFA**	**Performance change**
PI-1 (M1)	Aggregate expenditure outturn compared to original budget	**C**	**B**	**Performance improved**. Actual expenditure deviated from budgeted expenditure by 9.6%, 6.3%, and 11.1% in FY 2010/11, 2011/12, and 2012/13, respectively. End-of-year unretired advances from the MDG Fund to finance payments to contractors, although accounts receivable in accounting teams, are treated as actual expenditures in terms of scoring this indicator.
PI-2 (M1)	Composition of expenditure outturn compared to original budget	**NA** (D old method)	**D+** (i) D (ii) A	**Comparison not possible due to change in methodology.** Variance in expenditure composition exceeded 15% in at least two of the past three years. The "adjusted" budget in mid-year is regarded by BoFED as the real budget, partly reflecting uncertainties in the financial resource projections contained in the original budget.
PI-3 (M1)	Aggregate revenue outturn compared to original approved budget	**D** (revised method)	**C**	**Performance improved**. Actual revenue exceeded budgeted amounts by 34% and 5% and fell short by 8% in FY 2010/11, 2011/12, and 2012/13, respectively. The percentage deviations for non-tax and municipality revenue are much higher than for tax revenue.
PI-4 (M1)	Stock and monitoring of expenditure payment arrears	**B+** (i) A (ii) B	**B+** (i) A (ii) B	**No change.** Delays in releases by MoFED of MDG funds for payment of contractors have led to grace period payables still outstanding one month after the end of the FY**.**
	B. Comprehensive-ness and transparency	**Score 2010 PEFA**	**Score 2014 PEFA**	**Performance changes**
PI-5 (M1)	Classification of the budget	**B**	**B**	**Performance unchanged.** Budget formulation and execution is based on functional, sub-functional, administrative, and economic classification. The sub-functional classification is similar to the classification of functions of government definitions.
PI-6 (M1)	Comprehen-siveness of information included in budget documentation	**D**	**D**	**Performance unchanged.** Two of the seven applicable benchmarks are met.
PI-7 (M1)	Extent of unreported government operations	**B** (i) B (ii) B	**D+↑** (i) A (ii)D↑	**Overall performance unchanged.** The B rating in the 2010 assessment under (ii) was too high. (i) No change. The B rating in the 2010 assessment reflected significant levels of unreported Global Fund financing, but this is now captured under dimension (ii). (ii) No change. The rating in the 2010 assessment appears too high**.** Spending under DP-funded

				projects that are included in budget proclamations are increasingly being reported through IBEX**.**
PI-8 (M2)	Transparency of intergovern-mental fiscal relations	**B+** (i) B (ii) B (iii) A	**A** (i) A (ii) B (iii) A	**Performance improved under (i)**. The transparency of the data that underpin the block grant allocations to woredas has improved. The block grant makes up 95% of transfers.
PI-9 (M1)	Oversight of aggregate fiscal risk from other public sector entities	**A** (i) A (ii) A	**C+** (i) C (ii) A	**Performance unchanged.** (i) The scope changed, due to the number of enterprises increasing to 10 from only 4 and fiscal risk reports not being prepared. (ii) Performance unchanged with regard to fiscal oversight of woreda governments.
PI-10 (M1)	Public access to key fiscal information	**C↑**	**B**	**Performance improved**. The third and fifth elements are now met (availability of audited financial statements and contract awards). Irrespective of the score, connectivity problems out of the control of ARG have reduced the amount of information being posted on BoFED and other ARG websites.
	C. Budget cycle	**Score 2010 PEFA**	**Score 2014 PEFA**	**Performance changes**
	C (i) Policy-based budgeting			
PI-11 (M2)	Orderliness and participation in the annual budget process	**A**	**A**	**Performance unchanged.**
PI-12 (M2)	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D+** (i) D (ii) NA (iii) C (iv) C	**D+** (i) D (ii) NA (iii) C (iv) C	**Performance unchanged.** (i) A medium-term fiscal framework and expenditure framework are not yet in place. (iii) Sector strategies remain only partially costed and appear fiscally unrealistic. (iv) Investment decisions are based on sector strategies. Forward estimates that would include recurrent expenditures generated by committed capital investments are not in place.
	C (ii) Predictability and control in budget execution			
PI-13 (M2)	Transparency of taxpayer obligations and liabilities	**A** (i) A (ii) B↑ (iii) A	**A** (i) A (ii) A (iii) A	**Performance improved under (i) and (ii)**. (i) Strengthened transparency of tax legislation through standardization of the criteria for waiving penalties under the new penalty directive. The score for (i) in 2010 should have been B. (ii) Strengthened taxpayer education. The overall score in 2010 should have been B+.
PI-14 (M2)	Effectiveness of measures for taxpayer registration and tax assessment	**B** (i) B (ii) B (iii) C	**B↑** (i) B↑ (ii) B↑ (iii) C↑	**Performance unchanged, but strengthening is under way in all dimensions.** (i) There is now a requirement to have a taxpayer identification number to open bank account. There is further strengthening of taxpayer services and education and introduction of a biometric fingerprinting system. (ii) New penalty waiver scheme and its partial implementation through SIGTAS;

				(iii) Increasing revenue per auditor, though selective risk-based audit not yet in place.
PI-15 (M1)	Effectiveness in collection of tax payments	**D+↑** (i) NS (ii) A (iii) D	**D+** (i) A (ii) A (iii) D	**Performance unchanged.** (i) A tax arrears recording system has been introduced since the last assessment (SIGTAS and manual ledgers). End-of-year tax arrears have been <2% of collections, helped by a block management system (PI-13 ii). (ii) Collected revenues still deposited quickly into BoFED/WoFED accounts. (iii) Reconciliation of assessments with collections still problematic due to manual taxpayer ledger system and 1,000s of taxpayers.
PI-16 (M1)	Predictability in the availability of funds for commitment of expenditures	**C+** (i) B (ii) A (iii) C	**C+** (i) B (ii) A (iii) C	**Performance unchanged.** (i) Cash flow forecasts prepared by BIs and updated quarterly. (ii) BIs can commit expenditures with payment time horizons up to end-year. (iii) Reallocations between BIs is frequent, under BoFED control, but are transparent.
PI-17 (M2)	Recording and management of cash balances, debt and guarantees	**B** (i) NA (ii) B (iii) A	**B+** (i) NA (ii) B (iii) A	**Performance unchanged.** (i) ARG does not borrow, though the new Financial Administration Procurement allows it to. (ii) ARG's consolidated cash position still excludes balances of DP-held accounts. (iii) Should have scored A in 2010 assessment in relation to ARG guarantees on bank loans to agricultural coops.
PI-18 (M1)	Effectiveness of payroll controls	**B+** (i) B (ii) A (iii) A (iv) B	**B+** (i) B (ii) A (iii) A (iv) B	**Performance unchanged for all dimensions.** (i) Reconciliation in BIs between personnel records and payroll. (ii) Timeliness of adjustments to payroll due to changes in personnel records. (iii) Controls over changes strengthened. (iv) Payroll audits in existence.
PI-19 (M2)	Competition, value for money and controls in procurement	**NA** (Method revised: C score under old method)	**D+↑** (i) B (ii) D↑ (iii) C (iv) D	**The scores are not comparable with those in 2010, due to revised methodology.** (i) Legal framework: four of six benchmarks met**.** (ii) Data not available for scoring extent of use of open competition in procurement methods. Meetings with three sector bureaus and ORAG indicated that use of such methods has become the norm, so the D+ rating understates actual performance. (iii) Two out of four procurement information elements are publicized (bidding opportunities and contract awards). (iv) Independent administrative procurement complaints system not yet established.
PI-20 (M1)	Effectiveness of internal controls for non-salary expenditures	**B** (i) B (ii) B (iii) B	**B** (i) B (ii) B (iii) B	**Performance unchanged for all dimensions.** (i) Expenditure commitment controls (ii) Understanding of other internal controls (iii) Compliance with internal controls

PI-21 (M1)	Effectiveness of internal audit	**C+** (i) C (ii) A (iii) C	**B+** (i) B (ii) A (iii) B	**Performance improved** in terms of coverage and quality (i) and management response (iii). Frequency and distribution (ii) unchanged.
	C (iii) Accounting, recording, and reporting			
PI-22 (M2)	Timeliness and regularity of accounts reconciliation	**B+** (i) B (ii) A	**B** (i) B (ii) B	**Performance unchanged.** (i) Dimension would have scored A, if not for one Z-account under BoFED that has not been reconciled for more than a year. (ii) Dimension on suspense account advance reconciliation should have been rated B in 2010 PEFA.
PI-23	Availability of information on resources received by service delivery units	**B**	**B**	**Performance improved.** Tracking of resource flows has much improved and the information necessary for preparing consolidated service delivery reports is available, reports being submitted to the Regional Cabinet via the education and health bureaus. This is more the case for education SDUs, due to primary schools having their own bank accounts through GEQIP. The 2010 score should have been C.
PI-24 (M1)	Quality and timeliness of in-year budget reports	**C+↑** (i) C (ii) A (iii) B	**C+** (i) C (ii) A (iii) B	**Performance unchanged, but quality of reports has improved.** (i) Expenditure commitments and DP operations still not reported on as part of budget performance reports. (ii) Timeliness has improved due to IBEX roll-out. (iii) Quality improved due to roll-out of IBEX, but delays in clearing suspense accounts still a quality concern**.**
PI-25 (M1)	Quality and timeliness of annual financial statements	**C+** (i) B (ii) B (iii) C	**C+↑** (i) B↑ (ii) B (iii) C↑	**Performance unchanged.** ARG has just started to implement IPSAS. (i) No change: Channel 1b (direct funding from UN agencies to BoFED) projects are still not being reported in IBEX and therefore are not part of the consolidated annual financial statements. Starting in FY 2013/14, a new protocol is enabling conversion of DP codes to IBEX codes. (ii) No change: Timeliness of AFS (Annual Financial Statements) slightly improved, although rating unchanged. (iii) No change: AFS not yet prepared according to IPSAS, but ARG just starting to implement IPSAS.
	C (iv) External scrutiny and audit			
PI-26 (M1)	Scope, nature and follow-up of external audit	**C+↑** (i) B (ii) C↑ (iii) B↑	**C+ ↑** (i) C (ii) C (iii) B↑	**No overall change, but lower score under (i), improvement under (ii), and strengthening trend under (iii).** (i) The lower score represents a policy decision to reduce coverage in order to strengthen quality. (ii) Timeliness improved: rating in 2010 assessment should have been D.

				(iii) No change in auditee follow-up. Performance unchanged but establishment of multi-agency Audit Findings Action Taking Committee in September 2012 is strengthening performance.
PI-27 (M1)	Legislative scrutiny of the annual budget law	**C+** (i) C (ii) C (iii) B (iv) B	**C+** (i) C (ii) B (iii) C (iv) B	**No overall change in performance.** (ii) Improved dimension performance due to strengthened understanding of procedures, helped by a training program. (ii) Late submission of draft budget, although the time for review was still adequate.
PI-28 (M1)	Legislative scrutiny of external audit reports	**B+** (i) A (ii) B (iii) A	**A** (i) A (ii) A (iii) A	**Overall performance improved** because performance improved under dimension (ii) on the extent of audit hearings. (i) Timeliness of scrutiny of audit reports (ii) Extent of hearings on key findings (iii) Issuance of recommendations and evidence of implementation.
	D. Donor practices	**Score 2008 PEFA**	**Score 2013 PEFA**	**Performance changes**
D-1 (M1)	Predictability of direct budget support	NA	NA	Amhara does not receive budget support.
D-2 (M1)	Financial information provided by donors for budgeting and reporting on project and program aid	**C** (i) C (ii) C	**D+** (i) D (ii) C↑	**Performance unchanged**. The score should have been D+ in 2010, representing a D score for (ii), as budgeted expenditure for Channel 2b-funded projects was not reported on. (i) Performance fell, as Channel 2b-funded projects were not budgeted for. (ii) Performance is not comparable due to only Channel 1b-funded projects (mainly UN agencies) being budgeted for. Actual expenditures are not recorded in IBEX, but a protocol is being used with effect from FY 2013/14 to convert DP classification codes into IBEX.
D-3 (M1)	Proportion of aid that is managed by use of national procedures	**D**	**At least C**	**No change.** It is not possible to know the extent of use of country systems, as the amount of Channel 3 aid is not known, such aid not using country systems. Nevertheless, the large amount of the DP component of PBS indicates at least a C rating. The rating in FY2010 should have also been "At least C."
HLG-1	Predictability of block grant from MoFED	**A** (i) A (ii) NA (iii) A	**A** (i) A (ii) NA (iii) A	**No change.**

Notes: M1 is scoring method 1, used for all single dimensional indicators and for multidimensional indicators where weak 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. Scoring method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. The presence of ↑ means a PFM-strengthening activity is underway, which, when completed, would result in a higher rating.

1 Introduction

1.1 Background and Objectives

The first PEFA assessment of the Amhara Regional Government (ARG) was made in 2010, one of six regional government assessments carried out that year. The others focused on Oromia, Southern Nations and Nationalities Peoples' Region (SNNPR), Benizshangul-Gumuz, Harari, and Addis Ababa. A Federal Government assessment was also carried out. The assessments were carried out under the oversight of Ministry of Finance and Economic Development (MoFED) and financed by the EU.

This repeat assessment of ARG is also part of a broader exercise, covering the national government (repeat), Addis Ababa (repeat), Oromia (repeat), SNNPR (repeat), Tigray (new), and Somali region (new), also under the oversight of MoFED and financed this time by the World Bank.

MoFED has played a strong leadership role. It chaired the workshops held in Addis Ababa in October 2014 in connection with the PEFA assessments of the Federal Government, Addis Ababa City Government and Oromia Regional Government. A representative of MoFED (advisor to the Minister) attended the team's visits to Amhara region, Somali region, SNNPR, and Tigray region during October and November 2014.

As with the other regions, the main contact point was the Bureau of Finance and Economic Development (BoFED), the deputy head organizing the meetings both within and outside BoFED. No non-state actors were visited, although an unsuccessful attempt was made to visit the Bahir Dar Chamber of Commerce.

The objective of the PEFA is to provide an independent assessment of the quality and performance of the Public Financial Management (PFM) systems of the assessed governments, and in the case of the repeat assessments, to assess change in PFM system performance, if any, since the first assessments. The assessments will inform dialogue on ongoing PFM reforms supported through the Expenditure Management and Control Program (EMCP) and for new PFM initiatives such as the request from MoFED to the World Bank to move forward with the preparation of a stand-alone PFM project. It may also feed into the proposed projects in tax administration, audit and transparency to be funded by the Department for International Development (UK) (DFID).

1.2 Scope

Like the 2010 PEFA assessment, this assessment mainly covers the ARG, which consists of a number of bureaus, institutions, and authorities. It does not cover the PFM systems of woreda and city or town administration governments, which constitute the next level of government. Together these two levels of government constitute the Amhara National Regional State (ANRS). About 30 percent of ANRS expenditures fall under ARG. The fiscal relations between ARG and the lower level governments and the extent to which ARG monitors the financial situation of the lower level governments are assessed under PIs 8–9 of the PEFA Framework (see Chapter 3 of this report). This assessment also does not cover the PFM systems of ARG-owned public enterprises, numbering five, but does assess the extent to which ARG monitors their financial situation (PI-9). A consolidated table of ANRS expenditures that includes those of public enterprises is not prepared by ARG.

In some instances the reference point is the ANRS, as information is available only at this level. The instances occur in (1) table 2.1 and table 2.2 in Chapter 2 on fiscal outcomes; (2) performance indicator (PI) 4 and table 3.7 on expenditure arrears; and (3) PI-25 on annual financial statements and PI-26 on external audit. Furthermore, the scope of legislation is at ANRS level (e.g., Financial

Administration Proclamation), but tends to be implemented separately at ARG and woreda level. Institutions are named at the state level, even if their main responsibilities are at the regional government level (e.g., ARNS Revenue Authority). In general, the reference point is ARG unless otherwise specified. A PFM assessment of a sample of 36 woreda governments in five regions and Addis Ababa was conducted in FY 2011 (World Bank funded).

1.3 Process of the Assessment

The fieldwork was conducted during April 22–25, 2014. An initial meeting was held with the BoFED head and deputy head and was followed by meetings with staff of the key functional departments in BoFED: budget and planning, financial administration core process; procurement and property administration core process (these two processes were combined until 2010); Inspection Department (which monitors the internal audit function in ARG); Internal Audit Department of BoFED; Aid Coordination Unit; the Amhara Revenue Authority; Tax Appeals Committee; staff of the education and health bureaus; staff of the Regional Roads Authority; the Office of the Auditor Regional General (ORAG); and the chairman of the Committee for Budget and Finance in the National Assembly. An attempt was made to meet with the Bahir Dar Chamber of Commerce, but all members were out of town. Appendix B contains a list of officials met. Appendix C contains a list of documents obtained.

The assessment team comprised three independent consultants: Peter Fairman, (team leader), Getnet Haile, and Zeru Gebre Selassie, funded by the World Bank, under the supervision of Parminder Brar, World Bank sector leader and Lead Financial Management Specialist. The Bank is the sole DP involved in this assessment.

The first draft report was prepared after the fieldwork was completed for the other three regions (May 16, 2014) and was presented to World Bank on July 1, 2014. The team resumed its work on October 13, following the return of Peter Fairman to the country. It made a presentation to senior management representatives of BoFED, Amhara Revenue Authority (AmRA), ORAG, and the Budget and Finance Committee of Parliament on October 15 and held some follow-up meetings the same day. A post-workshop draft was submitted to the World Bank on November 24, 2014, the Bank then submitting the draft to the PEFA Secretariat on December 12, 2014. The assessment team received the comments of the Secretariat on February 2, 2015.

This draft reflects the comments of the Secretariat as well as adjustments that were made during the course of preparing the integrated assessment (i.e., integration of the seven PEFA assessments) during December and January, this being submitted to World Bank on January 23, 2015.

1.4 Quality Assurance

Normal World Bank quality assurance procedures have followed in preparing these reports, as outlined in the Concept Note for the assessments. The PEFA CHECK system has been used.

1.5 Structure of the Report

Chapter 2 provides background information on Amhara, an assessment of budgetary outcomes, and a description of the legal and institutional framework for PFM and key features of the PFM system in Amhara, focusing on changes since the 2010 assessment. Chapter 3 presents the evaluation of ARG's PFM systems. Chapter 4 describes recent and ongoing reforms and the main areas of intervention by ARG.

2 Country Background Information

2.1 Economic Context, Development, and Reforms

The Amhara National Regional State (ANRS) is the third largest state in Ethiopia, with an estimated area of 157,077 square kilometers, located in the northwestern part of the country. It is bounded by the Afar, 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. The capital is Bahir Dar, located on the shores of Lake Tana, a major tourist attraction known for its very old monasteries, and out of which the Blue Nile flows.

The structure of government is similar at all levels to the government in Ethiopia. The regional equivalent of the federal Ministry of Finance and Economic Development (MoFED) is the Bureau of Finance and Economic Development (BoFED). Located in Bahir Dar, BoFED has offices throughout Amhara, known as Zonal Offices of Finance and Economic Development (ZoFEDs). Similarly, sector ministries at federal level have their equivalents at the regional government level in the form of sector bureaus located in Bahir Dar and their offices in the zones. Woreda and municipal governments (also known as rural and urban woredas) form the level of government immediately below the regional level. The Woreda Office of Finance and Economic Development (WoFED) forms the equivalent of BoFED, while sector offices at the woreda level form the equivalent of sector bureaus at the regional government level. Amhara has 167 woredas, up from 151 at the time of the previous assessment; 129 are rural, with one added four years ago, and 38 are urban, 15 of which have been added since the previous assessment. The woredas are grouped under 10 zones, mainly representing different nationalities.

Similarly, the external audit and legislative oversight function is broadly the same as at the 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 Amhara Regional Government (ARG). The legislative oversight function is conducted by the elected Regional Council (RC).

As with other regions, the Amhara government takes its lead from the Federal Government in matters relating to economic development strategies and government reform programs.

Implementation of development strategies requires effective government, for which a well-functioning public financial management (PFM) system and a capable civil service are prerequisites. The Expenditure Management and Control Program (EMCP) and Public Sector Capacity Building Programs, led by MoFED and the Ministry of Capacity Building, respectively, continue to be the main vehicles for implementing PFM reform and strengthening capacity.

2.2 Budgetary Outcomes

Table 2.1 presents the overall fiscal profile of Amhara.

Table 2.1 Fiscal Performance, Amhara National Regional State (ETB millions)

Fiscal years	FY2010/11	FY2011/12	FY2012/13
	Actual	Actual	Actual
Total financial resources	**7,786**	**12,859**	**15,916**
Region’s revenues	1,733	2,576	3,668
Federal Government subsidy	6,053	10,283	12,248

Fiscal years	FY2010/11	FY2011/12	FY2012/13
	Actual	Actual	Actual
External assistance and loans	NR	NR	NR
Total expenditures	**7,442**	**11,031**	**14,987**
Recurrent	5,425	7,120	8,661
Capital	2,017	3,911	6,326
By function			
Admin. and general services	2,093	2,726	3,242
Economic services	1,925	3,581	5,106
Social services	3,283	4,614	6,229
Transfers	141	101	295
Balance	**344**	**1825**	**929**
Accumulation/Use of cash	-344	-1,825	-929

Source: IBEX-generated end-year trial balances. NR = not reported. The proclaimed budget includes externally financed projects and programs but actual expenditures are not reported in IBEX.

Enabled by a doubling of Federal Government transfers and domestic revenues, total expenditures doubled over the past three years, capital expenditure tripling. The establishment of the MoFED- and development partner (DP)-supported MDG Fund in FY 2011/12 contributed to the doubling of transfers and the tripling of capital expenditures (the MDG Fund can be used to finance only capital expenditure); the fund comprises about 30 percent of federal transfers to BoFED.[1] In functional terms, the share of economic services in total expenditures rose to 34 percent from 26 percent and the share of social services fell slightly to 42 percent from 44 percent, while the share of general and administrative services fell to 22 percent from 28 percent.

Table 2.2 shows the economic classification of ANRS expenditure. A noticeable trend is the increasing share of capital expenditure, rising to 39.2 percent of expenditure in FY 2012/13 from 21.8 percent of expenditure in FY 2010/11, the shares of all the other categories declining.

Table 2.2 Economic Classification of Expenditures, ANRS (ETB millions)

	Actual		Actual		Actual	
	FY2010/11	%	FY2011/12	%	FY2012/13	%
Personnel services	4,170	56.2	5,472	49.7	6,293	42.3
Goods and services	1,258	17.0	1,475	13.4	2,169	14.6
Subsidies and grants	370	5.0	387	3.5	576	3.9
Interest[a]	0	0		0	0	0
Capital	1,616	21.8	3,687	33.5	5,834	39.2
Total	**7,414**	**100**	**11,021**	**100**	**14,872**	**100**

Source: IBEX tables provided by BoFED.

[1] The MDG Grant is funded by the Federal Government and DPs and has various conditions attached to its use, the main one being that it can be used to finance only capital expenditure in the five basic sectors (education, health, agriculture, water, and rural roads). These conditions are negotiated between the Federal Government and ARG, the agreed-upon annual amounts being reflected in budget proclamations. The funds are distributed to the relevant sector bureaus, which then allocate the spending between the bureaus and the relevant sector woreda offices.

Note: The years correspond to Ethiopian fiscal years 2003–2005.
a. Account codes are 6100-6199, 6200-6299, 6400-6499 (including interest payments), and 6300-6399, respectively. Interest payments in 2012/13 were ETB 30,000 in 2012/13, zero in the other years. Debt repayments of ETB 200,000 in 2011/12 are excluded, as these are financing items under GFS.

2.3 Legal and Institutional Framework

Legal Framework

Two new proclamations came into effect in FY2011, the Financial Administration Proclamation and the Procurement and Property Administration Proclamation, effectively separating procurement from financial administration. Financial administration regulations were issued in 2011, the previous regulations having been in place for 14 years. Ten directives were subsequently issued for the effective implementation of these proclamations. Areas of increased focus include the quality and timeliness of financial reports and procurement plans. The directives also took into account the business process reengineering exercises conducted during 2007/08 and 2008/09.

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 Chapter 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 Chapter 3.

Legislative oversight: This function is performed by the RC, the members of which are elected. It reviews the draft budgets and external audit reports submitted to it by the Regional Cabinet and ORAG. Most of the review is conducted by a technical committee known as the Budget and Finance Committee (BFC). This function is assessed under PIs 27 and 28.

Subnational governments: The legal framework for this is covered under PI-8 in Chapter 3.

Institutional Framework

Since the 2010 assessment, the BoFED has been reorganized, partly in an effort to reflect the new proclamations referred to under "Legal Framework." The main effect is the splitting of the financial administration, procurement, and property disposal core process into two core processes: (i) financial administration and (ii) procurement and property administration. These changes have also been incorporated at the woreda level. Another change is the creation of the Channel 1 Unit to oversee the various Channel 1 programs that were being administered in different offices in BoFED. The establishment of the unit is expected to result in efficiency gains.

BoFED has the overall responsibility for PFM in ARG. It oversees the budget preparation process, the draft budgets being prepared by the bureaus, authorities, and institutions that constitute ARG (hereinafter referred as budget institutions, or BIs) and approved by the RC, which is the legislative assembly. These BIs execute their approved budgets, using the mechanisms and controls established by BoFED, principally through the electronic Integrated Budget and Expenditure Management system (IBEX) that was established several years ago in BoFED. This was in the process of being rolled out to bureaus at the time of the 2010 assessment. The BIs monitor budget performance during the year through IBEX and account for their expenditures during the year using the double-entry book-keeping system contained in IBEX, under which trial balances are generated every month. BoFED prepares annual financial statements for submission to ORAG for audit.

ORAG audits these statements and prepares audit reports for review by the Committee of Budget and Finance in the National Assembly.

Since the previous assessment, the rollout of IBEX to BIs has been completed and IBEX has been rolled out to 160 out of the 167 woredas under the oversight of zonal administrations. Electronic linkages still have not been established between the IBEX systems in BIs and in BoFED, the systems in BIs still being stand-alone, the main reason being problems with connectivity, partly due to power problems. Instead, BIs transmit information on budget performance to BoFED through hardware (CDs, flash drives) or through the Internet if it is working. The situation is apparently better at the woreda level, due to some woreda offices being able to obtain connectivity through a DP-funded initiative.

The connectivity problem has precluded sector bureaus from using IBEX to control commitments, due to the control process (i.e., checking that the proposed commitment is consistent with the approved budget and cash availability) being disrupted before it had been completed. Commitments are instead being controlled through the manual commitment ledger cards used before the advent of IBEX.

A new development, more relevant at woreda levels, is the establishment by BoFED of PFM teams to visit zones and woredas to advise on implementation of PFM reforms, particularly in relation to establishing effective internal audit committees. The change is partly nominal, the teams being in place previously under the Financial Transparency and Accountability Program (FTAP).

Development partner funding modalities: DPs provide funding to ANRS in a variety of ways, ranging from the straightforward and transparent to the not so straightforward and transparent, the rationales for not using the most straightforward way being not very clear.

- *The Protection of Basic Services Program (PBS), now in its third phase*: The DP funding for much of this is essentially budget support to the Federal Government, which then incorporates it into the Federal Government block grant transfer to Regional Governments (described under PI-8 of the Federal Government PEFA). The Regional Governments then determine the allocation of the block grants through their budget preparation procedures. This is the most straightforward method of support in use.

- *Channel 1a:* DP funding for projects and programs is channeled through MoFED to BoFED, the budgeting of the expenditures out of these funds being incorporated under the relevant ministry under the Federal Government budget. BoFED and the relevant sector bureaus in effect act as the monitoring and executing agencies, respectively, for MoFED. The projects and programs comprise the Public Safety Net Program (PSNP); the General Education Quality Improvement Program (GEQUIP); the World Bank–funded components of the Water, Sanitation, and Hygiene (WaSH) program; the Public Sector Capacity Building Program (PSCAP), which came to an end in FY 2009/10; the Urban Local Government Development Program; and the technical assistance and capacity-building programs under PBS. The funds are spent at both regional and woreda levels.

- *Channel 1b:* DP funding for projects and programs is channeled directly to BoFED by DPs, the funds being budgeted for in the proclaimed annual budgets under the relevant sector bureau. Most United Nations funds are provided in this way (UNICEF being the largest provider). Also included is the Finnish International Development Agency (FINNIDA)–funded component of WaSH.

- *Channel 2a:* DP funding for projects and programs is channeled to sector bureaus through sector ministries. The funding is budgeted for in Federal Government proclamations. Examples are the Agricultural Growth Program co-funded by the World Bank and USAID, projects funded by International Fund for Agricultural Development (IFAD), the USAID-funded Sustainable Land Management Project, and the USAID-funded Health Extension Project.

- *Channel 2b:* DP funding for projects and programs is directly channeled to sector bureaus, bypassing both sector ministries and BoFED.
- *Channel 3:* DP funding for projects and programs is channeled straight to the projects and programs with the limited involvement of the relevant sector bureaus (though more so in the case of the health sector bureau) and BoFED. NGOs fit into this category, some of which may be funded directly by a major donor, USAID being the main example. BoFED may be aware of the activities of such projects only if approached to approve some planning or regulatory aspect of the project.

BoFED has an Aid Coordination Unit, which monitors mainly Channel 1 aid flows but also some Channel 2 flows and the NGO components of Channel 3 aid flows. With regard to the latter, an improvement since the FY 2010 assessment is the requirement for NGOs to register their activities with BoFED and to periodically report on them. This mechanism had only recently been established at the time of the FY 2010 assessment. BoFED is not yet monitoring the non-NGO components of Channel 3 aid flows.

3 Assessment of the PFM Systems, Processes, and Institutions

3.1 Introduction

The following subsections provide the detailed assessment of the public finance management (PFM) indicators contained in the PFM performance measurement framework (PMF). The scoring methodology takes into account only the existing situation and does not cover ongoing and planned activities that may result in higher scores under future assessments, but these are summarized at the end of the discussion on each subsection.

Each performance indicator (PI) 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 weak 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 two, three, and four dimensional indicators is used to calculate the overall score. The PEFA handbook (*PFM Performance Measurement Framework*, available at www.pefa.org) provides detailed information on the scoring methodology. Effective January 2011, a revised methodology is being used for PIs 2, 3, and 19.

An upward pointing arrow (↑) may be provided if a PFM-strengthening activity is underway, which, when completed, would result in a higher rating.

The PEFA assessment reviews PFM performance under the existing situation. The relevant time period depends on the type of indicator. For some indicators, the relevant time period is the last completed fiscal year (2012): for example, PIs 4, 7, 9, 24–26, and 28. For some other indicators, the time period is the last three completed fiscal years (2010–12): for example, PIs 1–3. For some indicators the relevant time period is the situation at the time of the assessment: for example, PIs 13–14, concerning revenue administration, and the first three dimensions of PI-18, concerning payroll control. More information is available in the PEFA Secretariat's publication *Field Guide* (March 2012) on evidence and sources of information to support the scoring of indicators.

This is a repeat assessment, so it is important to ensure the validity of comparisons of ratings under the new assessment with the old one and that "like" is being compared with "like." Comparisons may not be valid if the scope of the new assessment for an indicator is not the same as under the old assessment. Comparisons may also not be valid if the ratings in the FY 2008 assessment appear to be incorrect.

Comparisons are problematic under two out of the three PIs where the rating methodology was revised, effective January 2011, namely PIs 2 (variance in the composition of expenditure) and 19 (public procurement). Re-scoring PI-2 from the earlier assessment requires the time-consuming inputting of data on the budgets and actual budget performance for FY 2005/06–2007/08 budgets into an Excel spreadsheet. Rescoring dimensions (i), (iii), and (iv) of PI-19 is feasible but difficult for dimension (ii), which addresses the justification for the use of noncompetitive procurement methods, as per the previous methodology. Under the revised methodology, precise quantitative data are required, whereas precise data were not required under the previous methodology. The methodology for PI-3 on revenue performance was also revised (underforecasting penalized as well as overforecasting), but rescoring the 2010 assessment rating for PI-3 is straightforward.

The PEFA Framework has been comprehensively revised over the past two years. A draft of the new framework was circulated to stakeholders for review in August 2014. The revision in its current form (as of August 2014) contains some new PIs, the removal of some others, the shifting of some dimensions to other PIs, and considerable strengthening of the clarity of the narrative. The revised framework is expected to come into effect in mid-2015. Tracking of progress in improving the PFM system will be possible only in relation to the new baseline that will be established through PEFA assessments using the revised Framework.

3.2 Budget Credibility

PI-1 Aggregate expenditure outturn compared to original approved budget

Table 3.1 ARG Aggregate Expenditure Performance (birr millions)

	FY2010/11 Budget	FY2010/11 Outturn	FY2011/12 Budget	FY2011/12 Outturn	FY2012/13 Budget	FY2012/13 Outturn
Total primary expenditure[a]	1,705	1,541	5,668	5,310	7,110	6,354
Deviation (%)	**-9.6**		**-6.3**		**-10.6**	

Source: IBEX tables.
Note: Years correspond to Ethiopian fiscal years (EFYs) 2003 to 2005.
a. Defined as total recurrent expenditure plus domestically financed investment expenditure.

The figures shown in Table 3.1 take into account a large amount of advances from the Millennium Development Goal (MDG) Fund that came into effect in FY 2011/12. Due to delays in disbursements to BoFED from the MoFED–managed fund, the MDG-funded capital projects contained in the proclaimed budget were initially partly financed by advances from the fund; the PFM Act permits advances to contractors of up to 30 percent of the value of the contracted project. Delays are partly due to payments being made on a reimbursement basis, so that work actually performed has to be verified as being in compliance with the terms of contracts. The advances are reflected in the accounts as accounts receivables (as shown in the end-year trial balance sheets generated by BoFED through the integrated budget and expenditures system, IBEX). These are retired as payments certificates presented by contractors to MoFED, via BoFED, are paid, which tend to be in the following year. The expenditure figures shown in the trial balance sheets, therefore, understate expenditure performance by large amounts in FY 2011/12 and 2012/13.

To adjust for this, the PEFA team added the advances to the recorded expenditures in order to reflect “real” expenditure. The size of these advances was ETB 1,546.5 million in FY 2011/12 and ETB 2,119 million in 2012/13. Expenditures rise to ETB 5,310 million from ETB 3,763 million in 2011/12 as a result of this adjustment, and to ETB 6,354 million from ETB 5,782 million in 2012/13. Without this adjustment, table 2.1 would have shown underperformance of 33.6 percent in 2011/12 and 18.7 percent in 2012/13. At its meeting with the team on October 14, BoFED verified to the team that this adjustment was valid.

Nondisbursement of ETB 380 million from the MDG Fund in FY 2011/12 due to underfunding at the federal level also contributed to the negative deviation that year. Similarly, nondisbursement of ETB 598.9 million in 2012/13 increased the negative deviation from what it would otherwise have been. A revenue shortfall of 8.3 percent in 2012/13 also contributed to underperformance (see PI-3). See table 3.2 for overall results.

Table 3.2 PI-1 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-1	C	B	Actual expenditure deviated in absolute terms from budgeted expenditure by 9.6%, 6.3%, and 10.6% in FY 2010/11, 2011/12, and 2012/13, respectively. Advances from the MDG Fund–financed payments to contractors, although accounts receivable in accounting terms, are treated as actual expenditures in terms of scoring this indicator.[a]	**Performance improved.**

Source: Budget performance tables, generated through IBEX, and tables prepared by BoFED on advances from the MDG Fund to contractors implementing capital projects selected for financing from the fund. The six budget institutions receiving advances are the Rural Road Authority, Water Resource Development Bureau, Health Bureau, Education Bureau, Technical Vocational and Enterprise Development Bureau, and Agriculture Bureau (in descending order of magnitude).

a. For EFY 2003 (2010/12) no adjustment was necessary, as the MDG Fund was not yet operational. For EFY 2004 (2011/12), advances of EFY ETB 1,546.5 million were added to recorded expenditure of ETB 3,763 million (as shown in the Trial Balance for end-year EFY 2004). For EFY 2005 (2012/13) advances of ETB 2,119 million were added to recorded expenditure of ETB 5,781.7 million and the previous year advances of ETB 1,546.5 million were subtracted (to avoid double counting).

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

Where the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure outturns against the original budget at a sub-aggregate level. The assessment is made by comparing the actual expenditures of budget institutions with budgeted expenditures, as represented in the budget proclamations. Appendix A shows the original budgets and actual outturns for each of these heads. The first 20 are shown separately in decreasing order of budgeted expenditure. The remaining heads are aggregated into a notional 21st head.

The method of assessing this indicator changed in January 2011. Under the previous methodology, PI-2 was assessed as the sum of differences between the actual and budgeted expenditures of each budget institution (BI), as a percentage of the approved budget minus the aggregate deviation, as measured under PI-1. This was methodologically incorrect, as the rating would be A if the differences were all positive or negative, regardless of the size of the differences between actual and budgeted expenditures. Under the revised methodology, the aggregate deviation is applied first to the approved budget of each BI, resulting in an "adjusted budget"(not the same thing as the adjusted budget shown in the IBEX-generated budget performance tables, which show the actual adjustments made to the budget during the first half of the year). The sum of the differences between actual expenditures of each BI and the "adjusted budget" of each BI is then calculated and expressed as a percentage of the "adjusted budget." This percentage is defined as the variance in expenditure composition.

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

Table 2.2 shows the variance in the composition of expenditure as calculated using the revised methodology. Actual expenditure for each BI includes end-of-year unretired advances from the MDG Fund, as explained under PI-1. The details are shown in Appendix A. The variance was 60.7 percent in FY 2010/11, 18.7 percent in 2011/12, and 24.5 percent in 2012/13.

The high variance points to issues in preparing the annual budget in the first place. The main issue, according to BoFED (and confirmed by a MoFED representative at the meeting with BoFED on October 14, 2014) is financial resource uncertainty, particularly with regard to externally sourced resources due to DPs providing firm estimates too late to be incorporated in the draft budget. Another issue is over optimism in capital expenditure estimates for next year's budget, particularly in FY 2010/11.

For these reasons, as was the case in the previous assessment, the authorities regard the original budget as temporary, anticipating the need for adjustments to the budget after it has been approved. The monthly Joint Budget and Aid Reviews (JBARs) prepared by BoFED and circulated to stakeholders do not show the originally approved budget, performance being evaluated against the adjusted budget. In the interests of transparency, it would be preferable to show the originally approved budget.

The adjusted budget does not necessarily detract from budget credibility as measured by the indicator. Reallocations tend to be from those BIs that find they do not need all the budgeted funds available to them; BoFED seeks the prior agreement of these BIs to reallocate from their approved budget. Those BIs that receive extra funds because they need them might have been happier if they had a larger budget to start off with, but nevertheless they appreciate the extra funding. The absence of a contingency reserve means that the onus of adjustment falls on the underperforming BIs. But the absence of such a reserve may have the benefit of more discipline in budget preparation. (The allocation of such reserves to BIs during the year would also reduce credibility, as measured by PI-2.) As noted, BoFED had a contingency reserve at the time of the 2010 assessment but later decided to dispense with it.

The adjustments that are made to the budget during the first half of the year also do not detract from the time horizon for entering into expenditure commitments (PI-16 (ii)). BIs can commit capital expenditures and bulk recurrent expenditure purchases (e.g., drugs) at the beginning of the year, the commitments becoming payables in the second half of the year and/or periodically during the year.

Table 3.3 ARG: Expenditure Composition Variance

FY	
2010/11	60.7%
2011/12	18.7%
2012/13	24.5%

Source: Appendix A.

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

Variance in the composition of the budget may arise from allocations to BIs from a separately budgeted contingency or reserve item. For transparency, the allocations should be to BIs that already have approved budgets and not to the contingency vote itself. ARG used to have a contingency item in its budget amounting to about 4 percent of its budget (line item 4615, as indicated in the last assessment), but has discontinued this practice. The previous methodology did not contain this dimension.

Table 3.4 PI-2 Results

PI-2 (M1)	Score 2010	Score 2014	Justification	Performance change
PI-2	NA	D+		**Comparison not possible**

PI-2 (M1)	Score 2010	Score 2014	Justification	Performance change
(i)	D (Previous method)	D	Variance in expenditure composition exceeded 15% in at least two of the past three years. Variance was 60.7%, 18.7%, and 24.5% in EFYs 2003, 2004, and 2005, respectively.	Comparison not possible due to change in method.
(ii)	NA	A	Expenditure charged to the contingency vote was less than 3% of the original budget. The budgeted contingency vote was zero in EFYs 2003–05.	The budget has not contained a contingency item since the 2010 PEFA assessment. The contingency vote at that time was all allocated to BI budgets, so would have scored A under revised method.

PI-3 Aggregate revenue outturn compared to original approved budget

Revenue outturns close to budgeted amounts contribute to budget credibility. Domestic revenues made up 19–23 percent of ARG's domestic financial resources in FY 2010/11−2012/13 (table 2.1, Chapter 2), the federal block grant being by far the largest source of domestic funds. Sizeable revenue shortfalls have a significant impact on aggregate expenditure outturns. The annual revenue of the ARG is estimated by the Amhara Revenue Authority (AmRA) in collaboration with the Planning and Budgeting Department and Macro-Fiscal Department in BoFED (table 3.5). The latter uses the Federal Government's projections for inflation and real GDP growth.

The method of scoring PI-3 was changed in 2011. Overcollections are now penalized, though not as much as undercollections.

Table 3.5 Domestic Revenue Performance for FYs 2010/11–2012/13 (ETB millions)

		2010/11			2011/12			2012/13		
		Budget	**Actual**	**Diff.**	**Budget**	**Actual**	**Diff.**	**Budget**	**Actual**	**Diff.**
Codes	**Tax Revenue**	**985**	**1,270**	**29%**	**1,786**	**1949**	**9%**	**3,094**	**2,760**	**-11%**
1100-1199	Direct tax on incomes	818	1,079	32%	1,272.	1,434	13%	1,806	1,994	10%
1200-1299	Indirect taxes: VAT, excise, and turnover	167	191	14%	514	515	0%	1,288	766	-41%
1400-1599	**Non-tax revenue**	**216**	**287**	**33%**	**326**	**398**	**22%**	**406**	**587**	**45%**
1701-1719	**Municipality revenue**	**90**	**171**	**90%**	**352**	**228**	**-35%**	**500**	**322**	**-36%**
	Total revenue	**1,292**	**1,729**	**34%**	**2,464**	**2,576**	**5%**	**4,000**	**3,668**	**-8%**

Source: Accounts Department of Amhara BoFED (IBEX data).
Note: The FYs correspond to EFYs 2003–05.

The forecasting error for total revenue fell sharply over the period. Total revenue exceeded budgeted amounts by 34 percent and 5 percent during the first two years, but fell short by 8 percent in FY 2012/13. Tax revenue exceeded budgeted amounts by 29 percent and 9 percent in 2010/11 and 2011/12, but fell short by 11 percent in 2012/13. Direct tax performance has been much better than indirect tax performance. Non-tax revenue (NTR) exceeded budgeted amounts by large amounts in all three years. NTR comprises many diverse items, and accurate estimation is problematic. Municipal revenues are a new category, reflecting the establishment in 2010/11 of new city administrations in Ethiopia, in addition to the already existing ones of Addis Ababa and Dire Dawa. Municipal revenue items are also many and diverse, their newness compounding estimation difficulties, as shown by the very large deviations above.

Amhara's economy is agriculture based, significantly influenced by climatic factors, so revenue forecasting errors are likely to be significant.

Table 3.6 PI-3 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-3	D (revised method: "A" in old method)	C	Actual domestic revenue was between 92% and 116% of budgeted domestic revenue in at least two of the past three years.	**Performance improved**. Actual revenue exceeded budgeted amounts by 34% and 5% and fell short by 8% in FY 2010/11, 2011/12, and 2012/13, respectively.

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.

The trial balance sheets prepared by BoFED do not differentiate between ARG and woreda governments. So PI-4 is assessed on an ANRS basis. As also noted in the 2010 assessment, arrears, if any, are likely to be higher for woreda governments than for the Regional Government.

(i) Stock of expenditure payment arrears

There is no official definition for arrears in the Financial Administration Proclamation and regulations of the ANRS. Salaries and wages are paid on the 23rd of each month, and all goods and services are generally purchased on a cash basis.

Prior to FY 2011/12 (EFY 2004) a grace period of 30 days was provided for the payment of capital-expenditure-related goods and services received before the end of the FY but too late to be processed within the FY (account no. 5001 in the Chart of Accounts). This practice was discontinued but then reinstated for the payment of capital-expenditure-related goods and services under the MDG Fund, which was established in FY 2011/12 (EFY 2004). Unpaid payment certificates submitted near the end of the fiscal year are accrued as grace period payables (GPP). These constituted 0.4 percent, 2.9 percent, and 1.4 percent of total ANRS expenditures for 2010/11, 2011/12, and 2012/13, respectively (EFY 2003-05) (table 3.7).[1]

According to BoFED, because of delays in the release of MDG funds from MoFED and the time it takes for MoFED to process authorization of construction works and to process payments

[1] The trial balance statements are for ANRS as a whole and not for ARG.

certificates (also mentioned under PI-20), GPPs may not be paid within 30 days of the end of the fiscal year, in which case they become arrears. Such arrears were ETB 321.9 million one month after the end of FY 2011/12 and ETB 203.9 million one month after the end of 2012/13. They had fallen sharply to ETB 20.9 million by two months after the end of 2011/12 (i.e., by September 7, 2012), but fell only marginally to ETB 182.9 million by September 7, 2013, due to delays by bureaus in closing their accounts for 2012/13. As indicated in the trial balance sheets, GPPs may remain outstanding for several months, due to the lengthy authorization and process time.

In addition, end-of-FY 2012/13 trial balances contained recurrent expenditure payables, including sundry creditors, pension contributions payables, salary payables, other payroll deductions and withholding tax payables. These amounted to ETB 523.9 million, which constituted 3.5 percent of total ANRS government expenditure. Salaries payable of ETB 141.3 million represent unclaimed salaries. According to BoFED (as clarified at the meeting held on October 14, 2014), these are temporary payables that are usually paid off the following month, as is the case for most months in the year. For example, delays in payments of withholding taxes to suppliers result in penalties to the government and thus there is an incentive to pay them quickly; pension contribution payables accrued near the end of each month may be paid the following month.

Table 3.7 End-year Expenditure Arrears in Relation to Total ANRS Expenditures (ETB millions)

	EFY 2003	EFY 2004	EFY 2005
Grace period payables at end of year (July 7)	36.78	487.7	438.3
Balance as of August 6 (1 month after year end)	32.3	321.9	203.9
% of ANRS expenditure	0.4	2.9	1.4
Balance as of September 6 (2 months after the end of the FY)		20.9	182.9
Balance as of June 6 (11 months from the end of the fiscal year)	25.0	46.3	Data not available
Total ANRS expenditure	7,414	11,021	14,873

Note: End-year recurrent expenditure payables are mainly paid the next month. They amounted to ETB 328 million in 2010/11; ETB 546 million in 2011/12; and ETB 523.9 million, in 2012/13.

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

Capital expenditure-related GPP (only for MDG Fund–financed expenditures) are recorded at the end of the fiscal year in IBEX, as shown in the trial balance sheets, and then for each month after that for as long they remain outstanding. Recurrent expenditure payables are shown in the trial balance sheets on a month to month basis. There is no age profile of these, but, according to BoFED, these are all nearly paid off during the following month.

Table 3.8 PI-4 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-4	B+	B+		**Performance fell under dimension (i)**.
(i)	A	A	The stock of arrears constituted 1.4% of total ANRS expenditure at the end of 2012/13.	*Performance unchanged.* However, the operational modalities of the MDG Fund are such that GPPs are still outstanding one month after the end of the FY, a small proportion still

				remaining outstanding for several months after that.
(ii)	B	B	Data on the stock of arrears is generated annually in the case of GPP, but may not be complete for recurrent expenditure payables. These are mainly paid the following month, but age profiles are not maintained for these.	*No change.*

3.3 Comprehensiveness and Transparency

PI-5 Classification of the budget

A robust classification system allows one to track spending on the following: administrative unit, economic, functional, and program.

The budget classification system at the regional level is exactly the same as at the federal level for both regional and woreda governments (the Federal Government budget classification system is described in the *Federal Budget Manual*, 2007, and the *Federal Chart of Accounts* manual, May 2007).[2] The details are described in the 2010 assessment. The system has not changed since then. A *B* rating was assessed in the 2010 assessment on the basis of the administrative classification falling under a sub-functional classification, itself falling under a functional classification, of which there are three: administrative and general service, economy, and social. For example, the Bureau of Education (code 311) falls under the code 310 subfunction (education and training), which itself falls under the 300 function (social sector). The different types of education (e.g., secondary) are itemized under different heads under code 311. The economic classification falls under the administrative classification and is broadly consistent with IMF Government Financial Statistics (GFS). The functions (3) and subfunctions (19) differ from the Classifications of Functions of Government (COGOG), but the subfunctions can be matched to some extent to the 10 COFOG functions. (See table 3.9.)

Table 3.9 PI-5 Results

Indicator	Score in 2010	Score in 2014	Justification	Performance change
PI-5	B	B	Budget formulation and execution is based on functional, sub-functional, administrative, and economic classifications, the sub-functional classification being similar to COGOG's functional classification.	**No change.** A higher rating requires a sub-functional classification similar to COFOG's sub-functional classification.

PI-6 Comprehensiveness of information included in budget documentation

[2] The budget classification system is described in the *Federal Budget Manual*, adopted in 2007. This was prepared with the support of technical assistance provided by Harvard University through the donor-supported Decentralization Support Activity project. The issue of compatibility with Classification of Functions of Government (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.

In order for the legislature to carry out its function of scrutiny and approval, the budget documentation should allow a complete overview of fiscal forecasts, budget proposals, and results of past fiscal years (table 3.10).

This indicator is assessed on the latest budget documentation, which is for FY 2013/14 (EFY 2006). The budget proclamation as submitted to the Regional Council (budget estimates) includes budget allocation of transfers to woredas and city administrations, assumptions for the budget formula used for the budget allocation, the sources of revenue, and the expenditure budget. The macroeconomic and fiscal framework (MEFF) has been indicated in the national Growth and Transformation Plan (GTP). The GTP covers the period from EFY 2003 to EFY 2007. Revised MEFF assumptions including aggregate growth have not been indicated in budget proclamations, though a three-year rolling MEFF preparation is required by Financial Administration Proclamation 178/2003, Article 19.

Table 3.10 Information in ARG Budget Documentation for FY 2013/14

Requirement	Fulfilled	Explanation
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the very least	No	*No change*. The medium-term macroeconomic and fiscal framework (MEFF) is indicated in the GTP, and is required to be updated each year under the Financial Administration Proclamation 178/2003 (Article 19), the assumptions to be reflected in the budget proclamation. This has not happened due to lack of capacity.
2. Fiscal balance	No	*No change*. Funds carried over from the previous FY and classified as revenue is contrary to GFS and results in overstatement of the fiscal balance. The correctly stated fiscal balance may be negative (fiscal deficit), which is then financed by use of cash balances.
3. Deficit financing	Yes	*No change.* The FY 2013/14 budget was balanced. It did not carry over unspent revenue from the previous year. The score should also have been "yes" in the 2010 assessment.
4. Public debt stock	NA	*No change.* ARG does not borrow
5. Financial assets	Yes	*No change*. Financial assets consist of cash on hand and in the bank (COA codes 4101, 4103, and 4105), and accounts receivables (COA codes 4200–4299). They are reported on in monthly trial balance statements and in financial position reports. They are not mentioned in the draft budget proclamation, but Regional Council members have access to them. This should have been scored as Yes in the 2010 assessment.
6. Prior year's budget outturn (2011/12), in the same format as the budget for 2013/14.	No	*No change*. The budget documentation does not explain the budget outturn of the prior years.
7. Current year's budget outturn (2012/13), in the same format as the budget for 2013/14.	No	*No change.* The budget proclamation contains no information on the current year's budget outturn.

Requirement	Fulfilled	Explanation
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	No	*No change*. The budget proclamation contains no budget data for the current and previous year.
9. Explanation of the budget implications of new policy initiatives	No	*No change*. The budget documentation does not mention new policy initiatives and doesn't explain the link between the budget and the GTP.

Table 3.11 PI-6 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-6	D	D	Two of 8 applicable items are contained in the budget documentation	**No change**.

PI-7 Coverage of government operations

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

This scope of this indicator is the extra-budgetary operations of ARG.

(*i*) *Level of extra-budgetary expenditure (not including project expenditures financed by donors) that does not appear in fiscal reports.*

The budgets of autonomous bodies are included in the proclaimed budget of ARG. The spending of non-tax revenues collected and retained by BIs (permissible in the case of health sector–related BIs) has to be included in the proclaimed budget. Revenues collected in excess of the approved spending thereof must be surrendered to ARG's Treasury Account. If BIs want to spend some or all excess revenues, they need to request for a supplementary budget.

The Roads Fund is a Government of Ethiopia (GoE) fund established to provide for timely payment of contractors contracted to implement Federal Government roads projects and should be budgeted for at federal level. Its operations are administered by the Rural Roads Authority (RRA), which, in addition, has its own budget for roads operations falling under its mandate. As indicated in Appendix 6, it is the third largest of ARG's BIs. The RRA prepares in-year financial reports on Roads Fund operations. As well as presenting these to the Federal Government it presents them to the Regional Cabinet, which then presents them to the Regional Council (RC), with copies to BoFED. The reports are not made available to the public, but they can be obtained from the RC.

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

Some external resources are channeled to ARG through MoFED and sector ministries and thus, in effect, are domestic resources from ARG's point of view. Analytically though, it is easier to consider these under dimension (ii).

As noted in Chapter 2, most of these are so-called Channel 1a (MoFED to BoFED) programs, and the spending in these is captured in the Federal Government budget, the Federal Government also providing its own related financing. The execution of these programs is organized by the respective sector bureaus, and the financial management is carried out by the Channel 1 Unit in BoFED; the Regional Government in effect is acting as a de-concentrated arm of the Federal Government. Sector ministries channeling DP funds (plus their own funds) to sector bureaus to implement sector ministry programs are known as Channel 2a programs.

Though these types of funding are proclaimed at the Federal Government level and thus are not relevant in terms of rating this dimension, the fact that they are not proclaimed at the Regional Government level raises a transparency issue. Much of the expenditures out of these funds fall under the mandates of regional and woreda governments, so proclaiming them at the Regional Government level would seem to be more transparent (the Regional Government then providing funding to woredas in the form of specific purpose grants).

An issue raised in the 2010 PEFA assessment was the nontransparent reporting on health-related projects funded by the Global Fund (GF). At that time, the GF was one of the largest sources of development finance in Ethiopia, yet its planned spending was not captured in either the Federal Government or Regional Government proclamations. Apparently the GF now mainly operates through NGOs and represents Channel 3 type funding, the transparency of which is discussed below.

Channel 1b funding (DPs to BoFED): The spending of the funds is included in ARG's proclaimed budget, or else the funds are transferred to woredas, the budgeted spending then being included in their proclaimed budgets (Chart of Accounts codes 2000–2999 under the External Assistance category). Actual spending may or may not be included in budget execution reports, depending on whether the Chart of Accounts spending codes are used through IBEX. Noninclusion indicates an unreported extra-budgetary operation (EBO), unless the spending is reported separately.

Projects and programs financed by United Nations executing agencies (UNICEF, UNDP, UNFPA, WFP, and mainly UNICEF) fall under this category. The Finnish International Development Agency (FINNIDA) also falls under this category through its funding of a component of the Federal Government's Water, Sanitation and Hygiene (WaSH) program.

Though Channel 1b fund-related expenditures are included in the proclaimed budget, representing about 2 percent of total expenditures, the actual expenditures are not included in the budget execution reports prepared by BoFED. Such exclusion is easily evidenced from the trial balance sheets provided to the team, as indicated in table 2.1, Chapter 2. The Aid Coordination Office in BoFED collates budget execution reports prepared by the project and program offices in BoFED, in conjunction with the relevant offices in the sector bureaus. Up to FY 2012/13 (EFY 2005), these were not being prepared through IBEX, as the project and program codes were different, reflecting programmatic activities-based costing methods. BoFED has not made these budget execution reports available to the public, and therefore the actual expenditures represent un-reported EBOs. As a proportion of total expenditure, they are very small, about 2 percent.

Starting in FY 2013/14, some of the UNEXCOM Channel 1b expenditures are being captured in the trial balance sheets on a broad economic classification basis, using a protocol that can link the UN codes to IBEX codes.

Channel 2b funding (DPs directly to sector bureaus), bypassing both sector ministries and BoFED: Planned spending is not included in the proclaimed budget.

The Bureau of Health (BoH) indicated that it receives support from a number of external agencies, much of the support not being incorporated in its proclaimed budget. The agencies include the Global Alliance on Vaccines Initiative (GAVI); the US government's Center for Disease Control (CDC); the World Health Organization (WHO), even though this is a UN agency; Indian Technical & Economic Cooperation (ITEC); and Canada Micro Initiative. BoH claims that it sends reports to

BoFED on the spending of these programs. BoFED's financial reports do not, however, include the planned and actual spending under these programs, the spending thus constituting unreported EBOs.

Under this category, the Bureau of Education (BoE) receives support from DVV, a German agency (for nonformal education); UNESCO, even though this is a UN agency; Save the Children Fund (a UK-based NGO); and Plan International. The support is not reflected in BoE's proclaimed budget and BoE appears not to report to BoFED on the spending under these projects. BoE estimates overall funding of ETB 40 million over five years.

Channel 3 funding (DPs directly to projects): Planned spending is not included in the proclaimed budget and not reported on by the relevant sector bureau, which may have only limited involvement in the project.

NGO operations tend to fall under this category, but some DPs apparently also provide funding through this channel. NGOs may have contractual agreements with relevant sector bureaus, although NGOs tend to operate more at woreda government levels. Many NGO projects are funded by USAID, through an agreement between USAID and MoFED. Global Fund operations are now mainly implemented by NGOs.

Under NGO coordination guidelines established in FY 2009/10, NGOs are required to register with BoFED, sign an agreement, and submit periodic reports on their activities to sector bureaus and to the NGO department in BoFED. The assessment team requested an example of a report but did not receive one. Sector bureaus hold annual meetings with NGOs. Whatever reports that are prepared on NGO operations, particularly operations through contractual relationships with sector bureaus and offices, they are not available to the public in the same way that on-budget reports are available.

The operations of USAID-funded projects that are executed directly (not through NGOs), are highly nontransparent in terms of planning and reporting. USAID operates through MoFED, but little is reported on. The amount of money involved is known to be large. As has been the case in some other African countries (e.g., Kenya), USAID projects may include big infrastructure projects (e.g., hospital construction) with limited involvement of the relevant sector bureaus, which have little say in determining whether the projects are consistent with the sector strategy. Eventually these bureaus have to budget for the subsequent operating costs.

BoFED considers that about 80 percent of direct DP assistance to ARG is channeled through it. But it is difficult to know exactly how much DP assistance is not channeled through BoFED, as the sector bureaus appear not to report to BoFED fully on the funding they receive directly from DPs (Channel 2b) and may have a not a full picture on the amount of funding provided straight to projects (Channel 3). A substantial proportion of Channel 3 funding may be in areas that woreda governments have responsibility for (and thus are outside the scope of this assessment), but it is difficult to determine the size of this proportion.

Full information on DP activity in areas where government is providing public services would strengthen the government's ability to plan and budget effectively for public service provision.

Ongoing and planned activities: Expenditure under Channel 1b-type DP-funded projects and programs are, effective the beginning of FY 2012/13 (EFY 2006), being reported on through IBEX through the use of bridging codes.

Table 3.12 PI-7 Results

PI-7 (M1)	Score 2010	Score 2014	Justification	Performance change
	B	D+↑		**No change in overall performance.** Dimension (ii) appears to have been scored too high in the 2010 assessment
(i)	B	A	The level of unreported extra-budgetary expenditure is insignificant, below 1% of expenditure.	**No change**. The B rating in 2010 assessment reflected significant levels of unreported Global Fund financing, but this is now captured under dimension (ii).
(ii)	B	D ↑	Information on DP-funded projects and programs included in fiscal reports is seriously deficient.	**No change.** The B rating provided in the 2010 rating appears too high and should have been a D. DP-funded projects that are included in budget proclamations are now being reported on through IBEX, hence ↑**.**

PI-8 Transparency of intergovernmental fiscal relations

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

The ARG receives a federal subsidy in the form of an unconditional block grant disbursed by MoFED in monthly installments. The subsidy can be used to finance recurrent and/or capital expenditures for any sector, as reflected in the budget approved by the Regional Council. On average, the subsidy covers about 70 percent of woreda government budgets. The subsidy is determined annually at the federal level through the MEFF process, which is finalized and approved by the Council of Ministers in February of each year. The ARG's share of the total block grant was 23.17 percent in FY 2012/13.

The ARG does not replicate and use the Federal Government's formula for allocating subsidies to its 129 rural woredas and 38 urban city administrations. Instead, as in some other regions, it uses its own formula, based on a unit-cost approach to determine recurrent expenditure needs of the strategic sectors (education, health agriculture, water, administration, and general service). The unit cost is a ratio that relates physical output and financial input such as cost per student, cost per health service beneficiary or patient, cost of agricultural extension service per household, and so forth. Input data include actual and potential number of employees and their salaries, number of institutions, and the number of beneficiaries for each sector (e.g., students), both potential and actual.

Capital expenditure needs are estimated on the basis of infrastructure deficits per woreda per strategic sector, on a needs basis that favors woredas with relatively poor infrastructure development with an approximate reference to norms (e.g., pupil per classroom ratio, health centers per 25,000 people).

The budgeted block grants to each woreda or town administration are indicated in the budget proclamations of ANRS. BoFED posts actual monthly grants on its website.

At the time of the 2010 PEFA assessment, the Regional Government had been planning to phase in the central government allocation formula in place of the unit cost approach, the former placing greater emphasis on equalization principles, but the Regional Government decided to retain the unit cost approach due to its simplicity and transparency.

An issue raised in the FY 2010 assessment was the transparency of the data (e.g., population, numbers of service beneficiaries) that underpin the estimation of the amount of transfer (an issue also raised in the FY 2007 Regional Government PEFA assessments). According to BoFED, this is no longer an issue, as the Central Statistics Office and the relevant sector bureaus and offices meet regularly to discuss the accuracy of the beneficiary data.

A further transparency issue raised in the FY 2010 assessment was the extent of offsetting of the amount of the transfer against assistance provided by donors to specific woredas, the reason being not to unduly favor woredas that receive relatively larger amounts of assistance from donors channeled through the Federal Government. The Federal Government follows such offsetting principles in allocating its block grant between the regions. The Amhara Regional Government was applying only a 15 percent offset factor in order to prevent hardship to woredas if the donor assistance was delayed. Woredas have argued that such offsets penalize well-performing woredas and run the risk of resource shortfalls if DPs disburse their resources late. The ARG has accordingly ceased its offsetting practices.

The only other subsidy that ARG provides directly to woredas is a specific-purpose Urban Development Grant for urban administrations, financed by an equivalent transfer from the Federal Government. The annual grant is proclaimed in the annual budget proclamations. The criteria for the allocation of these grants appear to be nontransparent; the allocation by woreda is not shown in the budget proclamation, the amount being shown only as a one line item. The annual amounts are very small relative to the block grant, only5 percent of the total subsidy to woredas.[3]

(ii) Timely provision of reliable information to subnational governments on the allocations to be made to them by central government for the following year

Budget preparation usually starts in February, taking into account the initial notification from MoFED of the amount of block grant to be provided to BoFED. The ANRS then uses its own formula to allocate its block grant (also a provisional amount) between the woredas and city administrations, so that they can then prepare their respective budgets to submit to their councils. Following approval of the national budget at the end of June (end of the fiscal year on July 7), regional governments make necessary adjustments to their budgets, if there has been a change to the initial notification of block grant, and inform woredas of any changes. Finally, if the amount has changed, woreda governments adjust and finalize their draft budgets. As ARG already knows the percentage of the overall block grant that it will receive from the Federal Government, it has a high degree of confidence in how much will be allocated in monetary terms.

There was a delay in this process in EFY 2004 (FY 2011/12), due to the mourning of the death of the Prime Minister, when woredas were not notified of their finalized block grants until July 11, a few days after the end of the financial year.

(iii) Extent to which consolidated fiscal data (at least on income and expenditure) is collected and reported for general government according to sectoral categories

Reports follow the standard chart of accounts used throughout all levels of government, including the sectoral and functional classification. Using IBEX, the data are consolidated into general

[3] The MDG Fund, which was established by MoFED in EFY 2004, is distributed to basic services, as delivered by the relevant sector bureaus: education, technical and vocational education, health, rural roads, water resources, and agriculture. The funds may be used only for capital expenditures. These take place in woredas on the basis of needs and priorities. There are no separate criteria for allocating the resources according to woreda, and thus the allocation of the MDG Fund is not relevant to PI-8. MoFED allocates the total amount of the MDG grant across regions according to the same criteria used for the allocation of the block grant by region. The grant was about 30 percent of the total subsidy to BoFED from MoFED in FY 2012/13.

government reports by the Accounts Department of BoFED, classified by function, program, and accounts code. The reports include the JBAR reports that are distributed to stakeholders (although these show the "adjusted" budget as the basis for comparison with actual expenditure rather than the original approved budget). BoFED provided the assessment team with the relevant reports for FYs 2010/11, 2011/12, and 2012/13. The annual reports are prepared within eight months from the end of the fiscal year.

Table 3.13 PI-8 Results

PI-8 (M2)	Score 2010	Score 2014	Justification	Performance change
PI-8	B+	A		**Performance improved under (i)**
(i)	B	A	The horizontal allocation of most transfers from ARG to woreda governments (at least 90% of transfers) is determined by transparent and rules-based systems.	*Performance improved.* The transparency of the data that underpin the block grant allocations to woredas has improved. The block grant comprises 95% of transfers.
(ii)	B	B	Woredas and city administrations 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.	*No change***.** Final allocations are usually close to the initial ones. Adjustments, if required, usually only take a few days.
(iii)	A	A	Fiscal information consistent with central government fiscal reporting is collected for 90% of woreda and town administration expenditure and consolidated into annual reports within 10 months of the end of the FY.	*No change*. Annual reports are prepared within eight months of the end of the fiscal year and cover all woreda and town administration expenditures.

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

(i) Extent of central government monitoring of autonomous government agencies (AGAs) and public enterprises (PEs)

ARG has 10 public enterprises, including one joint venture. An additional six public enterprises have been established in the past three years, number 5–10 in the following list:

1. Amhara Water Works Construction Enterprise
2. Housing Development Agency
3. Tana Transport
4. Construction Design and Supervision Enterprise
5. Forest Development Enterprise
6. Amhara Seed Enterprise
7. Amhara Plastic Factory (joint venture)
8. Amhara Road Construction Enterprise
9. Amhara Water Drilling Enterprise
10. Mulualem Cultural Center

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 do pay taxes. For example, Amhara Seed Enterprise sells to farmer-based organizations, competing with private traders. The same is true with Amhara Water Works, Amhara Water Drilling, and Amhara Road Construction. Although ARG is their main customer, they have to charge competitive prices and will secure a tender only if they have won a bid. These engineering enterprises are also doing business with private customers and in other regions (e.g., Afar and Benishangul).

In terms of governance, the enterprises are accountable to governing boards, consisting of senior ARG officials, including from BoFED. Each board approves annual work plans and evaluates quarterly and annual performance reports and audited annual financial statements submitted to it. Each board is accountable to the head of the ANRS (the Regional President).

(ii) Extent of central government monitoring of subnational government's fiscal position

Woreda governments have balanced budgets and do not generate deficits. They are not allowed to borrow, and their payables are monitored by BoFED. The ARG guarantees borrowing by farmer cooperatives and unions from banks (PI-17). If these organizations default on their debt service obligations, ARG then withholds the same amount from its block grant transfer to the respective woreda budget, resulting in a budget shortfall for the woredas and thus providing an incentive for woredas to put pressure on farmers to pay their debt service obligations on time. Own-revenue shortfalls can be financed by temporary advances from BoFED for repayment next year, thus providing woredas an incentive to mobilize revenues effectively.

Table 3.14 PI-9 Results

PI-9 (M1)	Score 2010	Score 2014	Justification	Performance change
PI-9	A	C+		**Performance not comparable under dimension (i). Performance unchanged under dimension (ii).**
(i)	A	C	The public enterprises submit fiscal reports to their governing boards, but a consolidated overview is missing.	*Performance not comparable*, as the number of enterprises has more than doubled. With only four enterprises to monitor at the time of the 2010 assessment, the concept of a consolidated overview did not really apply.
(ii)	A	A	Woreda governments cannot generate fiscal liabilities for ARG, and in any case the fiscal position of subnational governments is continually monitored.	*No change*. The in-year reporting system combined with the Single Pool System enables zonal administrations to keep track of the financial position of woreda governments. Woreda governments bear the risk of farmers and unions defaulting on ARG- guaranteed bank loans to them.

PI-10 Public access to key fiscal information

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

Strengthening fiscal transparency is a major priority for ARG, as also in other regions. The Fiscal Transparency and Accountability Program (FTAP), established in EFY 1999 (FY 2006/07) by the Federal Government, has been the main vehicle for strengthening transparency. The FTAP is the main vehicle for ARG to communicate with the public. Each woreda has its own FTAP team.

Legal, political, and institutional factors in countries influence the extent to which the information elements listed in table 3.15 can be met. Countries such as Ethiopia may be progressing very well in improving fiscal transparency, but, because of such factors, they may not satisfy all these elements.

The nationwide Internet connectivity problem, out of the control of ARG, has hindered the timely posting of fiscal information on ARG websites, including those of BoFED and Office of the Regional Auditor General (ORAG).

Table 3.15 Information Required to Be Publicly Accessible and Compliance

Information benchmark	Full compliance?
1. Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	*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 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.
2. In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	*Not met*. In the 2010 PEFA assessment, it was reported that a number of in-year budget execution reports were posted on the website. Currently, however, no in-year budget execution reports are posted on the websites of the region and BoFED (www.amhara.gov.et and www.amharabofed.gov.et). In-year reports on budgetary transfers to woredas are posted for the first six months and nine months of EFY 2003 and the first nine months of EFY 2004, but they have not been posted since.
3. Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	*Met.* The Auditor General's presentation of the audited financial statements to the Regional Council is broadcast live (thus within six months of completed audit). The team obtained a copy of the most recent speech.
4. External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	*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 (the same situation as under the 2010 assessment). Contents of the audit reports are disseminated on radio and television.

Information benchmark	Full compliance?
5. Contract awards: Award of all contracts with value above approximately US$100,000 equivalent are published at least quarterly through appropriate means.	*Met*. Contract awards are publicized through notice boards outside bureaus.
6. Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	*Met*, as elaborated on in the 2010 assessment. The situation has improved due to the further roll out of FTAP and the operations of the General Education Quality Improvement Program (GEQIP) (see PI-23).
7. Information collated by ARG on fees, charges, and taxes collected by woreda governments	*Not met*. The information is contained in the budget proclamations (available to the public) and IBEX-generated budget execution reports, which are not available to the public.

Table 3.16 PI-10 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-10 (M1)	C↑	B	Four of the six applicable elements are met.	**Performance improved**. The third and fifth elements are now met. The seventh element was added to the framework for subnational assessments in 2013, but for comparability, performance change is assessed on the basis of the original six elements. Irrespective of the score, connectivity problems out of the control of ARG have reduced the amount of information being posted on BoFED and other ARG websites.

3.3 Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

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

The ARG continues to follow the Federal Government guidelines with regard to budget preparation, as described in the *Federal Budget Manual* (January 2007). The calendar allows six weeks for the submission of budget requests after the issue of the Budget Call (BC) in February or March. The BC contains an overall, temporary ceiling for each BI budget, based on the provisional allocations in March of the block grant to regions by MoFED. The final ceilings are not known until the Parliament's approval of the Federal Government's budget at the end of the fiscal year.

Most bureaus submit their requests on time. BoFED evaluates these requests during April and discusses them with BIs, resulting in agreement on new spending proposed by BIs in their requests and approval by the Cabinet and agreement on the budget ceilings for detailed estimation. BoFED requests BIs in mid-May to prepare detailed estimates of recurrent and capital expenditures to fit within the budget ceilings. The BIs then have three weeks to prepare the estimates and submit them to BoFED; much of the estimation work has already been conducted during the initial phase of budget preparation. BoFED then prepares the draft budget proclamation, the Cabinet discusses and approves this and submits it to the Regional Council in mid-June. The Regional Council is supposed to approve by July 7 (end of the fiscal year). The Federal Government budget proclamation is approved by the Federal Parliament by the end of June. Any change in the block grant allocation from the temporary one allocated in March requires BIs to adjust their draft budgets accordingly. Usually, any such changes are minor, so BIs can make the adjustments quickly.

The BoE Planning and Budgeting Department has few issues with the timetable, the budget preparation system having been in place for several years. It has good relations with BoFED. The bureau distributes its internal BC to the various bodies falling under the education sector, requesting them to submit their budget requests to the bureau's Management Committee, which reviews them and then submits a consolidated budget request to BoFED.

(ii) Guidance on the preparation of budget submission

The "Guidelines for Public Bodies Preparing Budget Requests" contained in the *Federal Budget Manual* (2007) have not changed. A two-stage process is involved. First, 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. They also provide for prioritized and well-justified proposals for new capital projects.

At a later stage, after the submission and subsequent discussion of budget requests to BoFED , the Regional Cabinet may decide on some reallocations between BIs (partly based on the proposals in the budget requests for new capital projects), taking into account the aforementioned temporary ceiling on the block grant from MoFED and the allocation to bureaus of any extra fiscal resources ("fiscal space") that may have become available, particularly through the identification of matching savings by BIs. BoFED then sets firm ceilings for preparation of the detailed budget estimates.

The sector bureaus met had no problem with the clarity of the budget preparation guidelines.

(iii) Timely budget approval by the legislature

In the past three years, the budget has been approved around the start of the Ethiopian Financial Year (EFY),July 7: July 3, 2011, for FY 2011/12 (EFY 2004); July 8, 2012, for FY 2012/13 (EFY 2005); and July 11 2013, for FY 2013/14 (EFY 2006) as indicated on the gazetted budget proclamations. The mourning period for the late Prime Minister was the reason for the slight delay in approving the EFY 2006 budget.

Table 3.17 PI-11 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-11 (M1)	A	A		**No change**. The budget preparation system has not changed since the 2010 assessment
(i)	A	A	A clear annual budget calendar exists, is generally adhered to, and allows regional bureaus enough time (at least six weeks	**No change**.

PI	Score 2010	Score 2014	Justification	Performance change
			from receipt of the budget circular) to meaningfully complete their detailed estimates on time.	
(ii)	A	A	A comprehensive and clear budget circular is issued to regional bureaus, which reflects ceilings approved by cabinet prior to the circular's distribution to MDAs.	**No change.**
(iii)	A	A	Parliament approved the budget close to the start of the year for the past three years.	**No change.**

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

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

The *Federal Budget Manual* indicates (under section 6, "Budget Calendar") that Regional Governments, as with the Federal Government, should prepare a medium-term MEFF, which would show realistic projections of the resource envelope (regional revenues and transfers) available to finance expenditures. This was not being done at the time of the FY 2010 assessment and is still not being done. A Regional Government MEFF would be simpler than the Federal Government one, which has to incorporate a debt management strategy, but accurate forecasting of revenues remains a challenge due to capacity constraints and the mainly agricultural economic base. Accurate projections of transfers are also a challenge, as they are mainly an exogenous variable under the control of the Federal Government and DPs.

A medium-term expenditure framework (MTEF), showing projections of functional allocations, is also not yet in place, for the reasons explained below.

- The MEFF, which would provide the aggregate spending ceiling for the MTEF, is not yet in place.
- Sector bureaus are not yet preparing rigorous forward expenditure estimates (FEE), a prerequisite for an MTEF. Also known as "baseline estimates," FEEs are projections of expenditures under existing service delivery levels, and include the recurrent costs implied by committed capital expenditures.
- A program budgeting framework is still being rolled out at federal level within the Federal Government's MTEF. Piloting has started in some regions (e.g., Southern Nations and Nationalities Peoples' Region).
- Capacity constraints.

(ii) Scope and frequency of debt sustainability analysis

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 the Federal Government level on the basis of the GTP, (FY 2010/11 through FY 2014/15), and then adapted to the regional state level (Regional Governments and woreda governments each implementing the components of strategies that they have responsibilities for). The only costed sector strategy is the one for the education sector, the expenditure for which comprised 42 percent of total ANRS's expenditures in FY 2012/13. The team requested a copy, and was informed this was available through the Internet. A costed education sector strategy was in place at the time of the FY 2010 assessment but was fiscally unrealistic. This is likely to still be the case, as the GTP itself lacks fiscal realism.

(iv) Linkages between investment budgets and forward expenditure estimates

Capital projects are selected on the basis of sector strategies, themselves based on the GTP. The "Guidelines for Preparing the Capital Budget" (contained in the 2007 *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. MoFED, when estimating the size of the block grant allocation to each region, takes into account the recurrent costs implied by committed capital investments. The establishment in FY 2011/12 of the MDG Grant for funding capital projects in regions has reinforced this through the influence of the DPs helping to fund the grants. In the education sector, the linkage between investments and recurrent costs is implicit, as the investments are partly driven by enrollment projections and associated recurrent costs based on norms such as pupil/teacher ratios, as indicated in the Education Sector Strategy (page 110) in place at the time of the FY 2010 PEFA assessment.

Forward spending estimates are not yet formally prepared by ARG, as budget preparation does not yet have a medium-term perspective, but projections of the recurrent cost implications of capital projects help to inform annual budget preparation.

Table 3.18 PI-12 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-12 (M2)	D+	D+		**No change.**
(i)	D	D	No forward estimates of fiscal aggregates are undertaken.	**No change.**
(ii)	NA	NA	Not applicable.	**No change.**
(iii)	C	C	A costed education sector strategy is in place, education expenditure comprising about 40 % of total expenditures. The previous sector strategy was inconsistent with aggregate fiscal forecasts. This is likely to still be the case, the Growth and Transformation Plan itself being fiscally unrealistic.	**No change.**
(iv)	C	C	Investment decisions are based on sector strategies. Recurrent cost implications are partly taken into account during annual budget preparation, but a system of forward budget estimates is not yet in place.	**No change.**

3.4 Predictability and Control in Budget Execution

PI-13 Transparency of taxpayer obligations and liabilities

AmRA was established in 2006 to manage the ARG tax system, and it is a member of the Regional Executive Council (Cabinet). Previously it was part of BoFED. The organizational structure of the AmRA comprises five core and three supportive processes. The authority currently has 2,963 staff members, of whom 2,530 are professional staff (1,431 degree and 1,099 diploma holders), up from 1,666 professional staff members five years ago. The headquarters is not involved in operational activities, having mainly a coordinating role. Actual revenue collection is undertaken in 101 tax centers located in municipalities and woredas across the region.

Tax revenues are based mainly on federal and regional revenue-sharing arrangements concerning profits tax, value-added 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 "Chat" sales tax are not shared. There are no revenue-sharing arrangements between the Regional Government and woreda governments. Woreda revenue offices may collect tax revenue on behalf of the Regional Government (particularly agricultural income tax). In the interests of efficiency, rather than surrendering this revenue to the Regional Government, the woreda may retain some, accompanied by an offsetting reduction in the block grant. Woreda governments levy various forms of non-tax charges and fees for their own use. The relatively new city administrations (also known as municipalities), established by a proclamation in FY 2009/10, have the power to generate their own sources of revenue.

(i) Clarity and comprehensiveness of tax liabilities

The main tax proclamations in place at the time of the FY 2010 PEFA assessment were the following (in conformity with Federal Government proclamations): (i) income tax (2003) and supporting regulations (2004); (ii) turnover tax (2003); (iii) VAT (2002) and supporting regulations (2002); (iv) excise tax (2002); (v) rural land-use fee and agricultural income tax (2003); and stamp duty (1999) and the Chat sales tax (1999). All tax laws and regulations are posted on the AmRA website www.amra.gov.et. The assessment noted that the legislation was reasonably comprehensive and clear, with limited and clearly stated discretionary powers.[4]

The tax legislation has changed slightly since the 2010 assessment. The Income Tax Proclamation was amended in 2011 (Proclamation no. 189/2011) with regard to the waiving of penalties (section 42), supported by a subsequent directive and the enclosure of point-of-sale and cash register machines to address security issues. The directive on penalty waivers provided for region wide standardization of the criteria used for granting waivers. In the forty-seven tax centers where it has been established, the standard integrated government tax administration system (SIGTAS) provides the vehicle for standardization through approving applications for waivers if they meet the criteria. In the other 54 centers, the penalty directive is being applied manually. Another change in the tax legislation was the Chat Excise Tax Proclamation in 2012 (no. 174/2012).

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

The 2010 PEFA assessment indicated that communication with taxpayers was accomplished through the preparation of explanatory brochures covering all the major taxes and the media. Establishment of a website was still in the planning stage. Improving taxpayer access to information was still work in progress.

[4] These powers are the following: (i) the Ministry of Finance and Economic Development may waive tax liabilities up to ETB 100,000 at the minister's 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; and (ii) the head of BoFED may waive tax liabilities under similar circumstances up to ETB 75,000 at his or her 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).

The situation has since improved. AmRA has established its website. It now issues monthly bulletins and uses the new media more extensively. It organized the establishment of 400 tax clubs throughout the region for the purpose of educating tax payers, introduced a residential block management system for the purposes of educating taxpayers house to house, expanded the range of education programs held in schools, and held tax forums and meetings with stakeholders such as the Chamber of Commerce, Regional Government bureaus and zone and city administrations. The expansion of information and education services has enabled AmRA to receive more extensive feedback information from taxpayers on the clarity of the tax laws. The behavior of taxpayers is changing as a result, as they are educating themselves and are asking about their rights openly in face-to-face meetings.

(iii) Existence and functioning of a tax appeals mechanism

The 2010 assessment indicated that a three-tier tax appeals system was is in place, provided for under the Income Tax Proclamation, no. 76/2003, Article 114, and consisted of three tiers: the Appeals Review Committee (ARC) within AmRA, the independent Tax Appeals Commission (TAC), and the Court of Appeal (i.e. the judicial system of the region; the High Court, Supreme Court, and Panel Court). The ARC and TAC were established at regional, zonal, and woreda and city level. Members of the TAC included people from outside the government, including the head of the Bahir Dar Chamber of Commerce.

The tax appeals mechanism is the same for each type of tax. Thus, the mechanism is described in detail in the Income Tax Proclamation and summarized in the other tax proclamations.

The tax appeals system remains is in place. The 30 percent conviction rate, in favor of the taxpayer, is an indication of the fairness of the decisions of the bodies.

A taxpayer has 10 days to appeal against an assessment to the ARC in the responsible woreda or city administration office, via the Customer Service Work Process of the woreda or city administration. The ARC is expected to respond to the contestant within five days, but average response time is now three days, following the restructuring of AmRA and its full staffing. If the taxpayer is not satisfied with the committee’s decision, he or she can apply to the second appellate tier (the TAC).

The Chairperson of a TAC is appointed by the head of the regional, zonal, or woreda or city administration. Members include BoFED, the Trade Bureau, two business people from the business community (e.g., the Chamber of Commerce; if there is no chamber, respective taxpayers directly elect their representative), and AmRA itself (without a vote). The taxpayer has up to 30 days to appeal and must pay 50 percent of the disputed assessment pending resolution. The TAC should respond within 5 to 10 days, although exceptional cases tend to take a month or longer to be settled.

Table 3.19 shows appeal cases handled by the two appellate bodies.

Table 3.19 Tax Appeals Commission Performance

Cases received and verdicts passed									
Body	**FY 2010/11**		**FY 2011/12**		**FY 2012/13**		**Total**		**%**
	Cases	**Verdicts**	**Cases**	**Verdicts**	**Cases**	**Verdicts**	**Cases**	**Verdicts**	
TAC	6,028	5,297	7,870	6,165	30,514	25,922	44,412	37,436	84
ARC	2,697	2,555	6,26	6,356	30,833	30,130	40,056	39,041	97
Total	8,725	7,834	14,396	12,521	61347	56,122	84,468	76,477	91

Source: AmRA Review Committee.
Note: TAC = Tax Appeals Commission; ARC = Appeals Review Committee.

Of the 84,468 cases received over the period by the two appeal bodies, 91 percent were addressed.

The number of cases jumped by 600 percent over the three years, indicating increasing use of the appeals system, perhaps because of the strengthening of taxpayer awareness (dimension (ii)). The proportion of complaints being settled at the ARC stage also jumped sharply to 50 percent in FY 2012/13 from 31 percent in 2010/11, perhaps also indicating better understanding by taxpayers of the tax system.

Contrary to the experience of other regions, the proportion of cases decided in favor of AmRA (conviction rate) was 30 percent, while 70 percent of cases were settled in favor of taxpayers, hinting perhaps at a larger element of fairness of the appeals system.

A party dissatisfied with the decision may appeal to the High Court (tier 3) within 30 days of the decision on the grounds that the decision is erroneous in terms of the law. The appellant, however, must deposit 100 percent of the assessed tax liability. An appeal to a higher appellate court may still be made within a further 30 days.

Members of the region's Chamber of Commerce were out of town at the time of the PEFA assessment. AmRA claims that TAC is free, fair, and transparent. At the time of the 2010 assessment, the Chairman of the Bahir Dar Chamber of Commerce had indicated that he was a member of the Tax Appeals Commission and that generally consensus was reached on its reviews of appeals.

Table 3.20 PI-13 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-13 (M2)	A	A		**Performance improved through dimensions (i) and (ii).** The overall score in 2010 should have been B+.
(i)	A	A	Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the revenue authority	*Performance improved* through standardization of the criteria for waiving penalties. The rating in the 2010 assessment should have been B.
(ii)	B↑	A	Taxpayers have easy access to comprehensive, user-friendly, and up-to-date information on tax liabilities and procedures, and the revenue authority supplements this with taxpayer education campaigns.	*Continuing improvement since 2010.*
(iii)	A	A	A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional functions, is in place.	*Performance unchanged.*

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

(i) Controls in the taxpayer registration system

The FY 2010 PEFA assessment noted the requirement under Article 44 of the Income Tax Proclamation for all people with a potential or actual tax obligation to obtain a taxpayer identification number (TIN). One of the main incentives (checkpoints) was the requirement to have a TIN in order to obtain or renew a business license (Article 46). The Revenue Authority could then check if a business was registered for other taxes (e.g., VAT, excise taxes, turnover tax). A TIN was also needed for business with the Ethiopian Revenue and Customs Authority (ERCA) and business registries in other regions. The strengthening of taxpayer services and education programs (PI-13 ii) was inducing greater voluntary compliance with taxpayer registration and declaration requirements.

Nevertheless, the system was not yet watertight. Strengthening since the FY 2010 assessment has comprised the following:

- The further expansion of taxpayer services and education programs, particularly the introduction of the block management system in FY 2011/12, resulting in more taxpayers joining the tax net;
- The inclusion of financial institutions as checkpoints. Any corporate body or a business entity that wants to open a bank account now needs to demonstrate that it has a TIN;
- Following the initiative of ERCA, introduction of an automated SIGTAS-linked TIN registration system in 2009 based on biometric finger printing technology. To-date, 444,336 fingerprints, including those of students and business enterprises, have been collected. Of these registrants, 326,999 are formal taxpayers (including government employees), of whom 214,000 are business people. There are now 22 on-line finger print services in tax centers where fingerprints are converted to TINs. Once a taxpayer is registered, a card containing the TIN and bearing a photo of the taxpayer is produced and issued as soon as possible.

(ii) Effectiveness of penalties for noncompliance with registration and declaration obligations

Penalties for noncompliance have not changed since the FY 2010 PEFA assessment and are based on the Federal Government’s tax laws. They are set out in the tax proclamations and appear to be high enough to have potential and significant impact. Section 7 of the Income Tax Law provides for seizure of property in the event of default, and section 8 provides for administrative penalties. Section 9 provides for criminal penalties. 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 Chat excise tax also stipulate penalties.

The main issue with the penalty system since the FY2010 assessment was that taxpayers were still not complying with their obligations. The penalty waiver directive introduced (following the Federal Government’s example) in the amendment to the Income Tax Proclamation in FY 2010 (PI-13 i) permits penalties to be waived if taxpayers pay past tax due and associated interest. The incentive for complying with the directive is the avoidance of heavier (due to accrued interest) penalties at a later date; the quicker people pay, the greater the proportion of waiver.[5] The government’s revenue ends up being higher than in the absence of such a penalty waiver scheme.

[5] Under the directive, a payments plan is agreed between AmRA and the taxpayer, usually with a time limit (one to six months). Payments are made on a monthly basis, and the sooner the payment is made the higher the rate of the penalties waiver (from 20 percent up to 100 percent). If tax liabilities are paid within one month the probability of a

According to a study on the compliance behavior of taxpayers conducted by the Audit and Investigation Core Process in AmRA in FY 2012/13, out of the 6,609 A and B category taxpayers studied:

- 10.9 percent of them fully comply;
- 30.7 percent wanted to comply, but could not;
- 34.3 percent are hesitant about complying; and
- 25.5 percent deliberately do not comply.

According to the AmRA deputy head, legal action (enforcement of penalties and perhaps criminal proceedings) is taken against the 25.5 percent of taxpayers that are noncompliant, including big business firms. The Customer Service Delivery Department has been assigned to communicate with the other 65 percent of taxpayers that are noncompliant and exert maximum effort to bring them into compliance. The block management system referred to in PI-13 (ii) is one of the schemes devised for educating these taxpayers.

The administration of penalties through SIGTAS in 47 tax centers is bringing some attitudinal change in these taxpayers.

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

About 15 percent of the 214,000 tax payers in Amhara region are in the A and B categories (9,500 in category A, with turnover of at least ETB 500,000 a year, and 23,332 in category B, with turnover of ETB 100,000–500,000). Meanwhile, 178,067 fall into Category C, and most of these are small taxpayers who do not maintain books of accounts and pay presumptive tax. This dimension applies therefore only to taxpayers in the A and B categories, who, moreover, pay the bulk of taxes. The numbers are large enough that capacity constraints preclude audit of all these taxpayers every year. Auditee selection should therefore focus on taxpayers who pose relatively significant risk.

Under the direction of the audit and investigative core process at AmRA HQ, audit plans are prepared at regional, zonal, and city administration levels and then compiled centrally. The number of auditors grew from 48 to 127 over the past five years. Depending on size, the number of auditors per zone and city administration varies between four and eight. For efficiency reasons, auditors are not assigned at the woreda level. Instead, auditors at the zonal level conduct audits are the woreda level when required.

The tax audit procedures for taxpayers are not yet sufficiently aligned with SIGTAS to enable the use of rigorous risk-based criteria for auditee selection according to the tax area. Instead a comprehensive audit is conducted on businesses that operate in sectors where risk is considered to be high, namely in the import-export, hotels, and transport sectors.

The tax audit program is scrutinized to relate the number of days spent on tax audits to the additional revenue assessments made. Table 3.21 shows the regional audit plan and performance against the plan conducted in the past two years.

Table 3.21 Amhara Region State Audit Plan and Performance

penalty waiver is 100 percent, and if within two months up to 80 percent waiver, depending on the reasons forwarded by the taxpayer for not complying. SIGTAS is programmed to administer these waivers.

Budget year	No. of files to be audited	No. of files audited	Audit coverage %	Revenue generated (ETB millions)	No. of auditors	File per auditor	Revenue generated per auditor (ETB millions)
FY 2011/12 (EFY 2004)	3,495	1,406	40.2	53.87	46	31	1.17
FY 2012/13 (EFY 2005)	6,496	2,518	38.7	113.45	48	52	3.24
Average	**4,995.5**	**1,962**	**39.45**	**83.7**	**47**	**41.5**	**2.205**

In FY 2011/12, 46 auditors generated ETB 53.9 million additional revenue, representing over ETB 1.17 million per auditor. In 2012/13, 48 auditors generated ETB 113.45 million additional revenue, for a return of ETB 3.24 million per auditor, well over double the previous year's return.

Table 3.22 PI-14 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-14 (M2)	B	B↑		**Performance unchanged,** but strengthening under way in all dimensions.
(i)	B	B↑	Taxpayers are registered in a complete database with some linkages to trade licensing and company registration systems.	(1) Requirement for a TIN to open a bank account; (2) further strengthening of taxpayer services and education programs; (3) introduction of a biometric fingerprinting system to facilitate TIN registration.
(ii)	B	B↑	Penalties for noncompliance exist for most relevant areas but are not always effective due to insufficient scale and inconsistent administration.	The new penalty waiver scheme and its partial implementation through SIGTAS provide an incentive for compliance.
(iii)	C	C↑	There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.	Tax audits are managed according to an audit plan for comprehensive audit on companies operating in sectors considered to be relatively high risk, rather than for selective risk-based audits according to tax area. Progress is being made as reflected by the additional revenue generated per auditor.

PI-15 Effectiveness in the collection of tax payments

(i) Collection ratio for gross tax arrears

Up to the time of the 2010 PEFA assessment, AmRA did not have a rigorous mechanism for tracking tax debts. Formal templates for tracking tax arrears came into operation in FY 2009/10, following the 2007/08 business process reengineering (BPR). SIGTAS is operational in 47 out of the 101 AmRA branches in Amhara. In practice, power and connectivity problems are constraining its operations. Where it is not yet operational (in many woreda and city offices), manual ledger cards are maintained instead for tracking arrears. Table 3.23 summarizes arrears of the region in FYs 2010/11, 2011/12, and 2012/13, based on Standard Integrated Government Tax Administration System (SIGTAS) and ledger cards.

Table 3.23 Arrears in Amhara, FYs 2010/11, 2011/12, and 2012/13

Budget year	Arrears carried over to next year (i) in ETB millions	Current year arrears (ii)	Arrears collected (iii)	End-year arrears carried over to next year (i) + (ii) – (iii)	Tax revenue collections (iv)	Ratio of carried over arrears to revenue collections (iii/iv)
2010/11(EFY2003)	18.85	22.13	22.14	18.84	1,270.4	1.48%
2011/12(EFY2004)	18.84	32.64	31.66	19,81	1,949.3	0.97%
2012/13(EFY2005)	19.81	57.61	51.58	25.84	2,759.6	0.72%
2013/14(EFY2006)	25.84					

Table 3.23 indicates that the amount carried over each year is nearly the same, suggesting that most of the debt carried over was historical arrears and that nearly all the new arrears accumulated each year were collected by the end of the year. The block management system (PI-13 (ii)) introduced since the previous assessment helps people to pay tax dues on time. Assuming that the manual ledgers capture most tax arrears data, the rating is A, as total arrears are lower than 2 percent of total tax collections. If total arrears had been higher than 2 percent of total collections, the rating would have been D, as the annual collection of the old arrears is close to zero.

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

Regional Government tax revenue is collected by AmRA branches in woredas and town administrations and deposited daily into accounts held by Woreda Offices of Finance and Economic Development (WoFEDs) or Town Administration Finance and Economic Development Offices (ToFED) in the Commercial Bank of Ethiopia (CBE, which has branches all over the country). The AmRA cashier attaches copies of daily deposit receipts to taxpayer files. Bank advices and third copies of the receipts are then registered and enumerated in a form known as Me–Hi–65 and delivered to WoFED or ToFED, where the final treasury receipt is given to the AmRA cashier.

In the interests of efficiency, the WoFEDs and ToFEDs tend to keep the collected agricultural income tax revenues and rural land-use fees in order to expeditiously finance expenditures, the amount of block grant from the Regional Government being reduced by the same amount. Other Regional Government revenues are transferred nearly every day to BoFED's bank account in CBE.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the treasury

Revenue collected by AmRA branches are reconciled monthly with the amounts credited to BoFED's bank within 15 days of the end of the month.

In principle, the arrears-tracking module in SIGTAS and the system of manual taxpayer ledgers introduced since the FY 2010 assessment should enable complete reconciliation between taxes collected and assessed, because arrears can be tracked, as noted under dimension (i). SIGTAS is functional in only 47 AmRA branch offices, however. The manual ledgers number in the thousands (one ledger per taxpayer) and are maintained in AmRA branch offices all over the region, making routine and frequent reconciliation virtually impossible. No reconciliation of opening arrears, assessments, penalties, collections, waivers, and closing arrears could be produced to the assessment team.

Table 3.24 PI-15 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-15 (M1)	D+↑	D+		**Performance unchanged.**
(i)	NS	A	The total amount of tax arrears is insignificant (i.e., less than 2% of total annual collections).	*Performance improved***.** The end-year stock of tax arrears averaged 0.85% for EFYs 2004–05. The tax arrears recording system is in place through SIGTAS and, where SIGTAS is not operating, through manual ledger cards. The block management system helps people to pay tax dues on time.
(ii)	A	A	Transfers to the treasury are made daily	*No change.*
(iii)	D↑	D	Complete reconciliation of tax assessments, collections, arrears, and transfers to BoFED does not take place annually.	*No change.* In principle, the tax debt recording system introduced since the 2010 assessment permits reconciliation. In practice, with SIGTAS only partly operational, routine reconciliation on the basis of the manual debt tracking ledgers is logistically difficult.

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

Effective execution of the budget in accordance with the work plans requires that the BIs receive reliable information on availability of funds within which they can commit expenditures for recurrent and capital inputs.

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

The draft budget proclamation is approved by the RC in July, but full implementation does not begin until September or October, as the proclamation is not disaggregated into account codes. Prior to that, the recurrent budget is released monthly on the basis of 1/12th of the approved budget.

Sector bureaus prepare a monthly cash flow projection for the new budget year at the beginning of the year, taking into account disaggregated revenue and expenditure projections, the latter taking procurement plans into account. Once the disaggregation process is completed, BIs prepare a quarterly cash flow every quarter, on the basis of which BoFED sets quarterly expenditure ceilings and monthly limits on the amount of cash to be made available in the zero base accounts; these limits do not apply to the use of the MDG grant. If necessary, cash flow forecasts can be 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.

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

BoFED provides sufficient funding to meet required expenditure each quarter, requirements based on the cash flow forecasts. BIs can delay making expenditure commitments if funding is not going to be enough to make the payments when they become due. Alternatively, they can request BoFED to make an adjustment by providing funding through the contingency, or reallocating funds from other BIs or through re-phasing.

It is possible for BIs to commit expenditures for payments several months away through purchasing on credit early in the year and then paying against delivery according to the cash flow forecast. For example, BoH can commit to purchasing drugs for a year through its centralized procurement agency and then pay against delivery. BoFED then puts money into the zero-based account according to the cash flow forecast. If a payments certificate arrives earlier than expected, the BI can request BoFED for an adjustment.

The internal control system (PI-20) guards against spending commitments being entered into which are not covered by the approved budget, or that would cause the approved budget limit to be exceeded, or that would cause the monthly spending limit to be exceeded.

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

BoFED can make two types of adjustments to budget allocations: (1) transfers between bureaus that leave total spending unchanged, subject to Regional Cabinet approval -prior RC approval is not required; and (ii) a change in allocations that results in an increase in total spending -prior RC approval is required, via a supplementary budget. Article 6 of the FY 2013/14 budget proclamation (EFY 2006) made an exception to this rule. Up to 50 percent of excess revenues (relative to the budgeted amounts) collected by sector bureaus and woredas can be retained for spending without requiring a supplementary budget

In the case of (1) above, some BIs may request reallocations if they need extra funding for some reason. BIs with unutilized budget (e.g., due to capital project implementation slower than planned, often the case due to capacity constraints) may notify BoFED, which can then reallocate to other BIs. BoE did this in FY 2011/12. Reallocations from capital budgets to recurrent budgets are not allowed. BoFED first consults with BIs about the possibility of reallocating away from their approved budgets.

The extent of adjustments is significant, as indicated by the D rating for PI-2 and as confirmed by BoFED at the workshop on October 23, 2014. Budget performance reports show the total value of "transfers in" and "transfers out" with reference to each BI. They do not show the frequency of adjustments, although the date of each adjustment is presumably contained in the original source data, but BoFED indicated a significant level of frequency. The adjustments are made with a fair degree of transparency through the prior consultations between BoFED and BIs, as noted.

Supplementary appropriations proclamations tend to be infrequent, once or twice a year. They tend to relate to expenditures financed by DPs and therefore are outside the scope of this indicator, which concerns domestically funded expenditure only; total such expenditure was lower than budgeted amounts in FYs 2010/11–2012/13.

Table 3.25 PI-16 Results

Indic ator)	Score 2010	Score 2014	Justification	Performance change
PI-16 (M1)	C+	C+		**No change.**
(i)	B	B	A cash forecast is prepared for the year and updated quarterly. Monthly updating is possible, but quarterly updating is the practice.	*No change*. (Monthly updating required for A)
(ii)	A	A	BIs are provided reliable information on resource availability for commitment three months in advance, but can plan and commit expenditure for at least six months in advance according to their cash flow forecasts and budgeted appropriations.	*No change*.
(iii)	C	C	Significant in-year budget adjustments are frequent but are undertaken with some transparency through consultations between BoFED and BIs.	*No change*. (Infrequent adjustments required for B)

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

The ARG may borrow from domestic sources with authorization of the RC as per Financial Administration Proclamation 178/2003, Article 40 (FY 2010/11). This was not the situation under the previous proclamation that was in effect at the time of the 2010 PEFA. There were no borrowings in FYs 2010/11–2012/13 (EFYs 2003–2005).

(i) Quality of debt data recording and reporting

Due to the absence of domestic debt, it is not possible to determine the quality of the debt data recording. However, the IBEX can handle liabilities (as indicated in the trial balances) and so would be able to record debt if ARG were to borrow.

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

BoFED's approval is needed for the opening of bank accounts by BIs, including bank accounts for the implementing units of DP-funded projects and programs. There are four categories of bank accounts: Z account, B account, MDG account, and DP accounts (Channel 1 and 2 accounts). Z accounts are referred to as "zero balance accounts," which are virtual bank accounts opened for 48 sector bureaus by BoFED. A monthly cash withdrawal ceiling is set by BoFED for every BI, based on their monthly cash requirement forecasts. BIs effect payments from the Z account to the extent of the ceiling. On a daily basis, CBE sweeps the balance from Z accounts against BoFED's Central Treasury Account (CTA) at CBE. This arrangement represents the Treasury Single Account (TSA), which has been operational since FY 2007/08. BoFED knows the consolidated CTA cash balance position on a daily basis. The CTA constitutes about 70 percent of the cash balances of the ARG.

B accounts are deposit accounts (revenue accounts) into which revenues collected by the BIs and woredas are deposited. Revenue collected by AmRA authorities are transferred to the CTA.

The MDG Fund account, established in FY 2011/12 (EFY 2004) to finance capital expenditure, is not part of the TSA, as MoFED provides funds on a results-based reimbursement basis, with cash being transferred into bank accounts opened at CBE for each recipient BI. The balances on these accounts can be consolidated into the daily cash position of ARG, but not swept back daily into CTA.

DP-funded projects have separate bank accounts at the level of BoFED, BIs, and woredas. For example, BoH has about 20 DP- funded project bank accounts and BoE has about 17 of these. These are not part of the TSA. The balance in each account is known at the level of BIs and reconciled periodically but is not consolidated into the overall ARG cash balance position.

(iii) Systems for contracting loans and issue of guarantees

ARG has not yet contracted any loans; it has been allowed to do so under the FY 2010/11 Financial Administration Proclamation with authorization of the Regional Council. ARG issues guarantees for loans from CBE to agricultural unions and cooperatives in the region, for their annual purchases of fertilizer for distribution to farmers. If the unions or cooperatives fail to collect from the farmers, BoFED withholds its subsidy to the woredas in which the farmers are located, the woredas then having to follow up with farmers on the loans they owe. The ceiling for the guarantee is determined by a proclamation issued by ARG for every crop season; the ceiling was ETB 1.474 billion in FY 2010/11.[6]

Table 3.26 PI-17 Results

PI-17 (M2)	Score 2010	Score 2014	Justification	Performance change
	B	**B+**		**No change**. Only dimension (ii) was scored in the 2010 assessment. Dimension (iii) should have scored A.
(i)	NA	NA	ARG does not borrow	NA
(ii)	B	B	Most cash balances are calculated and consolidated at least weekly through the CTA/Z account system. About 30% of cash balances fall outside the system.	**No change.**
(iii)	A	A	The ARG does not borrow yet. There is a system of issuing loan guarantees as evidenced by the proclamations issued by the RC. BoFED has the sole responsibility for issuing guarantees.	**No change**: The dimension was not scored in the previous PEFA, as BoFED did not mention the loan guarantee scheme, but should have been scored A.

PI-18 Effectiveness of payroll controls

Payroll and personnel management are decentralized to BI level in Ethiopia. Given the decentralized nature of personnel and payroll management, the assessment team met officials from three BIs in addition to BoFED: BoE, BoH, and Amhara RRA. A civil service directive issued since the 2010 assessment reinforces the need for consistency between the personnel data bases maintained by BIs and the payroll of BIs.

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

Human resource departments (HRDs) in the respective BIs are responsible for maintenance of HR-related documentation (e.g., promotion, termination) and communication of changes in this to the Finance Department of the BI. Each department within a BI is responsible for attendance control and issuing of the attendance summary to the HRD each month, the HRD then making changes to personnel records if warranted. HRDs record personnel documentation in hard copy only. Finance

[6] Proclamation no.170/2010, "Domestic Loan and Guaranty Authorization of ANRS."

departments in BIs use Excel or an in-house payroll system developed some years ago by BoFED for payroll preparation. Most finance departments, including in BoH, are mainly using Excel, not even being aware of the software system. Exchange of records between HRDs and finance departments are therefore in hard copy form.

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

Payroll changes are made by finance departments within BIs a few days from the receipt of letters from HRDs indicating changes, if any, in personnel records. Changes received after the 23rd of the month will be updated in the payroll the subsequent month. Retroactive adjustments to payroll records are rare. If a staff member has resigned after receiving a full month's pay on the 23rd of the month, the excess payment will be taken out of his or her terminal benefits.

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

The documentation for changes in personnel data is copied to finance departments and the relevant operational department by letter. The supporting documents for the changes in the personnel and payroll records are well documented and accessible for audit and review. In addition, supporting documents for changes made to the payroll are presented to finance department heads at the time of approval of the payroll. Payroll software, if it is being used, and the computer used for running the payroll, are password protected. Generally, the internal control over payroll is strong. Both the Inspection Department in BoFED and the Auditor General confirmed that the internal control over payroll is generally good.

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

As part of the financial audit process, internal auditors at each BI check payrolls against attendance sheets and review the correctness of the computations. As a separate audit, internal auditors and ORAG review personnel records and sometimes review these records against payroll. There is no comprehensive payroll audit, however, which reviews simultaneously payroll and HR records.

Table 3.27 PI-18 Results

Indicator)	Score 2010	Score 2014	Justification	Performance change
PI-18 (M1)	B+	B+		**No change.**
(i)	B	B	Personnel data and payroll data are not directly linked, but the payroll is supported by full documentation for all changes to personnel records each month and checked against the previous month's payroll data.	*No change.*
(ii)	A	A	Required changes to personnel records and the payroll are made monthly, generally in time for the following month's payment. Retroactive adjustments are rare.	*No change.*
(iii)	A	A	The control system on payroll is strong and the system provides an audit trail to review changes to personnel and payroll records.	*No change.*
(iv)	B	B	Payroll and personnel records audits are conducted separately but regularly by internal audit departments.	*No change.*

PI-19 Transparency, competition, and complaints mechanisms in procurement

Table 2.2 in Chapter 2 indicates that about 50 percent of expenditure is for the purchase of goods and services and capital assets, thus indicating the importance of the procurement system in providing value for money.

At the time of the 2010 PEFA assessment, procurement legislation at the Regional Government level was based on the Federal Procurement Proclamation approved in 2005 (no. 430/2005). Proclamation 649/2009 replaced Proclamation 430/2005 and reestablished the Public Procurement and Property Administration Agency (PPPAA) as an autonomous Federal Government agency under the Minister of Finance.

At the ANRS level, the ANRS Public Procurement and Property Administration Proclamation (no. 179/2011, EFY 2003) was gazetted on July 5, 2011, relevant regulations and directive (guideline) being issued at the same time. Procurement is regulated and monitored by the Public Procurement and Property Administration Core Process (separated from the Financial Management and Property Administration Core Process in 2010 as a result of BPR). The main difference is the unifying of procurement and property administration under one law. Procurement operations remain the responsibility of BIs, with BoFED continuing to play a regulatory, standard-setting, technical advisory, inspection, monitoring, and complaints-addressing role. DP procurement procedures can continue to be used for DP-funded projects and programs if DPs prefer to do this, even for programs and projects contained in the proclaimed budgets (Chapter1, Articles 3 and 6 of the July 5, 2011, proclamation).

Procuring entities are required to prepare annual procurement plans (Chapter 2, Article 10, Section 1); the BoE provided the team with a copy. They are required to maintain documentation on their procurement operations (Chapter 2, Article 11, Section 1), including the grounds for using procurement methods other than open bidding. BoFED is required to check that procuring entities are complying with the Proclamation and associated directives (Chapter 1, Article 8A, Section 9).

The Proclamation lists six procurement methods that can be used: (1) open bidding; (2) restrictive bidding (invitations to bid sent to a restricted number of qualified suppliers); (3) request for quotation (for procurement below the value specified in the procurement directive); (4) direct procurement; (5) request for proposals (in relation to consultancies); and (6) two-stage tendering (Chapter 2, Article 20, Section 1). Open bidding is the preferred procurement method (Chapter 2, Article 20, Section 2). Open tenders are to be advertised (Chapter 3, Article 21, Section 1). Procuring entities can use other methods only if the conditions specified in the Proclamation for the use of such methods are satisfied (Chapter 2, Article 20, Section 3). BoFED decides whether requests from procuring entities to deviate from the prescribed procurements are justified (Chapter 1, Article 8, Section 5), although the requirement that procuring entities submit such requests appears not to be specified.

The Proclamation lays out three conditions for the use of restricted tendering methods, and at least one condition must be satisfied (Chapter 4, Article 36): (1) the required object of procurement is available from a limited number of suppliers; (2) the cost and time for evaluating many bid documents is higher than the value of the object to be procured, the procurement directive establishing a maximum value for such object; and (3) repeated advertisements fail to attract bidders.

The Proclamation lays out the conditions for use of direct procurement methods (sole sourcing) (Chapter 6, Article 40): (1) only one supplier available; (2) additional deliveries of goods from the same supplier are needed, use of different suppliers using different parts being impractical due to not meeting interchangeability requirements; (3) additional works under a contract have become necessary due to unforeseen circumstances and tendering for such works is impractical, the procurement directive setting limits for the procurement of such works; (4) a contract has finished and new works or consultancies are required in the same areas covered by the completed contract; (5) continued use of the same contractor or consultant, previously selected through competitive procurement methods, is preferable, for efficiency reasons, to re-advertising; and (6) emergency situations.

The Proclamation establishes the complaints process (Chapter 12, Article 56). The first stage is the submission of a complaint to the head of the procuring entity (Article 57). The second stage (Chapter 1, Article 8, Section 7; Chapter 12, Articles 57–58), if the complaint is not resolved at the first stage, is the referral of the complaint by the aggrieved contractor to the "grievance hearing" process located in BoFED. This was not defined in the Proclamation but was later defined through the procurement directive as the Complaints Review Committee (CRC), which is a unit located in BoFED. Upon receipt of the complaint, BoFED instructs the procuring entity to suspend the procurement process. The secretariat to the CRC is a staff member of BoFED, potentially compromising the supposed independence of CRC. The CRC process, however, appears to be less ad-hoc than under the previous Proclamation.

The bureaus implement their procurement operations on the basis of the directives issued under the Proclamation. The Bureau of Education (BoE), for example, has a tender evaluation committee for bids larger than ETB 100,000. The committee has five members, two of whom are procurement officers. Sole source procurement is conducted in rare cases (e.g., printing of examination papers). The bureau head has to approve use of direct procurement methods. Results of bid evaluations are posted on notice boards and are now posted on BoE's website, though this had been down for a while due to connectivity problems. Complaints are sent to the bureau head. If the complaint cannot be resolved within BoE, the head submits the complaint to the CRC. Many complaints are from bidders, who in fact did not meet the specifications, so complaints generally do not go beyond BoE. The BoE sends procurement-related information to BoFED upon request.

The assessment team requested information on procurement operations and complaints and an example of a procurement plan but did not receive them, despite reminders.

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

The requirements for the scoring of this dimension and whether they were met in FY 2012/13 are listed in table 3.28. The previous methodology did not include this dimension.

Table 3.28 Transparency in Procurement

Requirement	ARG practice
1. The legal framework is organized hierarchically and precedence clearly established.	**Yes,** as indicated in the ANRS Public Procurement and Property Administration Proclamation (no. 179/2011, EFY 2003), gazetted on July 5, 2011. The BoFED remains the regulatory body and has sole authority for preparing procurement directives under the Proclamation.
2. It is freely and easily accessible to the public through appropriate means.	**Yes,** as provided for by Article 7 of Chapter 1 of Proclamation no. 179/2011, which states that the proclamation and associated directives "shall be made accessible to the public and be systematically maintained for use."
3. It is applied to all procurement undertaken using	**Yes,** as provided for in Chapter 1, Article 3 of the

government funds.	Proclamation, which is applicable to all procurement in the region funded wholly or partly by the Regional Government budget**.**
4. Open competitive procurement is the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified.	**Yes,** as elaborated on in at the start of subsection 3.4, earlier.
5. It provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	**No**. The proclamation explicitly provides only for public access to bidding opportunities. In practice, however, contract awards are publicized.
6. It provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	**No.** The proclamation provides for a complaints review process in BoFED (Chapter 12, Article 57), but does not explicitly state that it is independent of the procurement process. The location of the Public Procurement and Property Administration Core Process in BoFED would appear to compromise any independence.

(ii) Use of competitive procurement methods

This dimension was contained in the previous methodology, but the scoring criterion was specified in general terms, whereas the revised methodology requires quantitative data in order to score. The ratings under the old and revised methodologies are, therefore, not comparable.

The legislation provides scope for using restricted tendering methods under certain circumstances, but obtaining evidence of justified use of such methods is difficult. The team requested tables of procurement operations and methods used during FY 2012/13 (EFY 2005) from the BIs it met with (education, health, roads authority), but did not receive them. In any case, from a BI's point of view, any use of restrictive tendering methods would always be justified, so receipt of the information would have been of little help in rating this dimension. A much larger sample would also have been needed.

The Procurement and Property Administration Core Process in BoFED should be in a good position to determine whether the use of restrictive tendering by BIs was justified. It does not, however, receive information on procurement operations from BIs and appears not to request it, although it has the right to do so under the proclamation (as indicated under the PI-13 subhead earlier) and even though the BIs keep minutes of meetings at which they discuss whether restrictive tendering methods should be used. This was also the situation at the time of the FY 2010 assessment.

Procurement-specific audits are only just starting to be performed by the internal audit units in BIs. One of the conditions under the Protection of Basic Services Program (PBS) is that at least 10 percent of procurement entities have to be audited. The only office that can at present potentially provide an objective opinion on whether procurements using restrictive tendering methods are justified is the ORAG, which checks the validity of the use of such methods as part of the audit process. It does not carry out procurement-specific audits, however, and audits only a sample of BIs.

The deputy BoFED head and staff met in the BoE, BoH, and RRA indicated that open competitive bidding is being used more and more and is becoming the norm. The ORAG pointed out that use of sole-sourcing methods was rare nowadays.

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

Four information elements are required: procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints. Only bidding opportunities and contract awards are currently made available to the public (the latter through the notice boards located outside bureaus). The procurement proclamation does not require BIs to publicize the other elements. This dimension was not included under the previous methodology.

(iv) Existence of an independent administrative procurement complaints system

The previous methodology included a dimension for assessing the complaints system but in much less restrictive terms, as the complaints system did not have to be independent, except in order for the dimension to obtain an A rating. The ratings under the old and revised methodologies are, therefore, not comparable.

The FY 2011 proclamation provides for a complaints review process in BoFED, if the complaint could not be resolved through the review process in the procuring entity. The independence of the process is not explicitly stated in the Proclamation. It is unclear how the complaints process can be independent of the procurement process if it is located in BoFED, where the Public Procurement and Property Administration Core Process, which performs the monitoring and regulatory function in ARG, is located.

Moving forward, the ARG is planning to convert the Public Procurement and Property Administration Core Process into an independent procurement agency.

Table 3.29 PI-19 Results

Indicator)	Score 2010	Score 2014	Justification	Performance change
PI-19 (M2)	NA	D+↑		**No comparison possible** due to change in method of assessment.
(i)	NA	B	Four of the six listed requirements are met.	
(ii)	NA	D↑	BIs are not yet providing the Public Procurement and Property Administration Core Process in BoFED with the information they should be providing under the proclamation that would enable the rating of this dimension. Based on meetings with three sector bureaus and ORAG, the use of open competition procurement methods is becoming the norm, thus implying a higher rating.	
(iii)	NA	C	Bidding opportunities and contract awards are made available.	
(iv)	NA	D	The complaints review system, located in BoFED, is not yet independent of the procurement process.	

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

This evaluation refers to the internal controls for non-salary expenditures at the time of assessment (April 2014). The scope of coverage is at the ARG level. Internal control systems of woreda governments were assessed in FY 2011, as part of the woreda government PFM assessment. The regional Financial Administration Proclamation regulations and directives that underpin the legal basis for internal control systems apply to both ARG and woreda governments (i.e., they are on an ANRS basis).

The financial control systems are embedded in the financial regulations (themselves derived from the Financial Administration Proclamation) and associated internal directives. Other control systems, such as those related to personnel management, are embedded in the civil service regulations. The following directives and guidelines have been adapted from the federal directives and guidelines and distributed to all BIs (corresponding EFYs are 2004–05):

- Financial Administration Proclamation (proclamation no. 178/2011)
- Financial Administration Regulation (89/2011)
- Procurement and Property Administration Proclamation (179/2011)
- Procurement and Property Administration Regulation
- Manual for the Procurement Of Goods And Services (7/2011)
- Manual for the Administration Of Budget (8/2011)
- Manual for Cash Management (4/2011)
- Cash Disbursement Manual (5/2011)
- Accounting Procedure Directive (6/2011)
- Financial Accountability Directive (3/2011)
- Internal Audit Guideline (9/2011)
- Internal Control Standards (10/2011)
- Property Administration Directive (2/2011)
- Procedure on Guarantor (11/2011)
- Stock Management Manual (2012)
- Government Vehicle Use and Administration Manual (3/2012)

In addition, the Internal Audit Manual of the ANRS contains the basic principles of internal control systems. Internal auditors and ORAG are responsible for ensuring that the internal control systems are complied with.

(i) Effectiveness of expenditure commitment controls

IBEX has a budget control module, which is not uniformly used by BIs in the region. For the control of commitments, some BIs use a manual ledger (nonautomated hand written), others use Excel spreadsheets, and very few of them use the IBEX budget control module, which in any case monitors commitments rather than controls them. According to the ANRS financial administration regulations (no. 178/2011, Articles 29(2) and 32(1)), a BI cannot enter into an expenditure commitment without an approved budget, or unless there is "sufficient unencumbered (i.e., uncommitted) balance from the budget to discharge any debt." In other words, approval of proposed expenditure commitments depends on whether the proposed expenditures are included in the approved budget, and, if so, if there is sufficient remaining uncommitted balance in the approved budget.

Approval of commitments is not explicitly tied to projected cash availability. Financial administration departments in BIs, however, through their manual control processes can block commitments; this would prevent monthly cash expenditure limits (as described under PIs 16 and 17) established for the next quarter from being exceeded. Thus, projected cash availability is taken into consideration as well as unencumbered budget availability. In the event of revenue shortfalls relative to forecasts, BoFED can work with BIs to determine the extent that expenditures can be re-phased and/or that offsetting adjustments can be found. Also through their manual control processes BIs can commit expenditures for payments in later quarters based on their cash plans, themselves based on the cash flow forecasts, as approved by BoFED. Monthly cash expenditure limits eventually set by BoFED for later quarters take into account the projected payables arising from the earlier commitments. Most purchases are on a cash-on-delivery basis, the main exceptions being long term-construction projects and the provision of consultancy services

Thus, cash flow forecasting (PI-16 (i)) and efficient cash management on the basis of the Treasury Single Account-Z 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).

Cash shortfalls are unlikely for Regional Governments in Ethiopia, as about three-quarters of their financial resources come from the Federal Government in the form of the block grant, the monthly receipt of which is very predictable (a rating of A for HLG-1). Domestic revenue predictability is also good (C rating for PI-3, but revenues exceeded budgeted amount in two out of three years.) These two factors, along with effective commitment controls, have contributed to low stocks of end-year payments arrears (B+ rating for PI-4).

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

As indicated earlier, several guidelines and directives were issued in FYs 2011/12 and 2012/13 with the objective of strengthening the internal control systems. The internal control systems include: (1) segregation of duties for preparing, checking, certifying, and approving the movement of resources, including through cash and check disbursement; and (2) receipt, issuance, and disposal of stock items and properties. The segregation of roles applies to all processes, including payroll preparation (PI-18), procurement (PI-19), staff advances, use of real assets, and personnel administration. The processes are both financial (e.g., bank reconciliation) and physical (e.g., stock counts) and so involve most of the personnel within an organization, not just those in the financial management area. The internal audit function (PI-21) checks for compliance with the manuals and guidelines.

As indicated by the Inspection Department (ID) in BoFED, noncompliance with rules, as reported by auditors, is partly attributed to insufficient understanding of rules and regulations, The Internal Control Manual (no. 11/2011) is a good and easy-to-understand reference guide for management and staff, but training in the use of internal control systems is still needed.

Training is in fact being provided for new entrants, employee turnover causing a continual stream of new staff members. Training is also being provided for the accountants and heads of BIs on the various internal control systems, including on internal audit. The PBS program is supporting training.[7] Furthermore, PFM teams have been established since FY 2011 to follow up PFM reforms at the regional, zonal, and woreda levels, thus also helping to strengthen understanding of policies and procedures.

Although the BPR led to the streamlining of some internal controls, some may still be unnecessarily cumbersome. For example, the long outstanding grace period payables referred to under PI-4 may have resulted from unnecessary delays due to excessive authorization procedures for the approval of construction works.

(iii) Degree of compliance with regulations on the processing and registration of 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. In addition, the increasing follow-up on the findings and recommendations of internal auditors (PI-21) and ORAG (PI-28) have improved the level of compliance.

Common areas of noncompliance reported by ORAG and internal audit departments in certain BIs and woredas include cash shortages, not maintaining fixed assets and stock control records, weak

[7] PFM reform report EFY 2005 (Bahirdar, Amhara: BoFED, 2013).

follow-up on receivables and advances, insufficient documentation, and not withholding of taxes from payments as per the law.[8]

Table 3.30 PI-20 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-20 (M1)	**B**	**B**		**Performance unchanged.**
(i)	B	B	The Financial Administration Proclamation (2011) prohibits entering into commitments without availability of unencumbered balance. The cash flow forecasts prepared by BIs on the basis of these forecasts, the cash plans agreed between BIs and BoFED on the basis of these forecasts, and the TSA-Z account system all help to guard against cash unavailability at the projected time of payment. In the event of a serious risk of a cash shortfall, managers try to find offsetting adjustments in other parts of the budget.	**No change.**
(ii)	B	B	Internal control systems are comprehensive, well documented, and generally understood. Training programs are ongoing (through PBS program and BoFED's PFM support teams). The BPR has streamlined processes, but these seem to be still excessive delays in some areas (e.g., contract authorizations)	**No change.**
(iii)	B	B	Compliance to rules and regulations is generally good. As reported by ORAG and ID, there are indications of noncompliance in certain areas by some BIs.	**No change.**

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 scope of this assessment is at ARG level. Woreda governments have their own internal audit systems (assessed in FY 2011 as part of the woreda government PFM assessment).

BoFED has a duty to oversee the internal audit functions of BIs and to help them develop.[9] The ID at BoFED has responsibility for this. Internal audit departments formally report to both the heads of the bureaus in which they are established and to the ID (i.e., dual subordination). In addition, the ID conducts special audits.

(i) Coverage and quality of the internal audit function

[8] ORAG, *Annual Report of ORAG, EFY 2005* (Bahir Dar: ORAG, 2013); and *Inspection Department Quarterly Report* (Bahir Dar, Amhara: BoFED, 2013).

[9] Financial Administration Proclamation (no. 178/2011), article 6, subarticle 4.

By the time of the FY 2010 assessment, the internal audit function had been nominally established in all BIs through the creation of internal audit departments (IADs). The function was in place in both bureaus and zonal administrations, the latter through a single pool system implemented through ZoFEDs. An internal audit (IA) manual had been prepared (December 2007), based on the Federal Government's IA manual, with a 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 were required to have a Bachelor of Arts degree in accounting. ORAG was "accrediting" internal auditors through the issuance of certificates and MoFED was providing training. As per the Internal Audit Manual, the focus of IA was on systemic issues; financial and compliance audits were the main type of audits conducted *ex post* (i.e., not pre-audits), in the course of which systemic issues would be identified. In practice the IA function was not yet fully operational at the time of the FY 2010 assessment, mainly because of insufficient numbers of internal auditors and the relative newness of the function hence the C rating.

The quality of internal audit function has been improving since the 2010 assessment, according to ID and ORAG. Firstly, the ID has issued more manuals, guidelines, and standards, as follows:

- Guideline on Preparation Of Risk-Based Audit Plans (September 2010, EFY 2003), as some annual internal audit plans were not being prepared on the basis of risk assessments;
- Internal Audit Report Writing Manual (December 2011);
- Internal Audit Directive (December 2011);
- Internal Audit Standard (December 2011);
- Performance Audit Manual (received in 2014, yet to be customized).

Secondly, the staffing level has much improved from the time of the FY 2010 PEFA assessment, partly due to the BPR exercise conducted in FY 2008 for most ARG PFM-related functions. Previously, IADs had one or two internal auditors in place. These subsequently increased up to five. The internal audit function is now covering all BI expenditures, including those under donor-funded projects. Thirdly, the ID has stepped up its training effort. In FY 2012/13 (EFY 2005), the ID provided training to about 500 internal auditors from the IADs of BIs. Fourthly, IADs have been performing special audits on request, the purpose being to investigate possible instances of financial misconduct.

ORAG is using the internal audit reports more frequently than before, indicating increasing confidence in the quality of the reports.

(ii) Frequency and distribution of reports

Each IAU produces between seven and eight reports, including four quarterly financial and compliance audits and three to four other audits on human resource and property issues and/or special audits. Internal audit reports are submitted to BIs and copied to the ID. The ID received over 600 internal audit reports during EFY 2005. The ID summarizes audit findings on a quarterly basis and distributes these to the Budget and Finance Committee (BFC) in the RC, the head of regional administration, ORAG, and the BoFED head.

(iii) Extent of management response to internal audit findings

At the time of the FY 2010 PEFA assessment, the extent of management response to audit findings varied considerably across bureaus, depending on how seriously the audit function was taken (for example, not seriously in BoE, the bureau head preferring to focus more on strengthening accounting capacity). This was due to the function still being new relative to the development of other PFM functions and to the structures for follow-up by IADs not yet being fully in place.

Since the FY 2010 assessment, structures for follow-up have evolved. Three levels of follow-ups for responses to internal audit findings have been established. The first level is conducted by the IAD in each BI, the IAD and management preparing and agreeing to an action plan for addressing audit findings. The second level follow-up is conducted by the ID, which issues letters to the head of BIs concerning serious audit findings identified in audit reports submitted to it; the letters are issued within seven days from receipt of the audit report. The letter requires the BIs to respond in 30 days on the action they took under the action plan developed in response to IAD findings. The third level is the follow-up by the BFC in the RC. The ID periodically conducts a monitoring and evaluation visits to internal audit departments, also looking into the actions taken following internal audit findings. According to ID, almost all BIs are responding to audit findings.

Table 3.31 PI-21 Results

Indicator)	Score 2010	Score 2014	Justification	Performance change
PI-21 (M1)	C+	B+		**Performance improved.**
(i)	C	B	Internal audit is operational for the majority of BIs and substantially meets professional standards, with a focus on systemic issues.	*Performance improved* due to guidance from the ID, more staffing, continued training, experience gained, and increasing collaboration with ORAG
(ii)	A	A	Audit reports are regularly issued and submitted to BIs, BoFED, and ORAG.	*Performance unchanged*. More reports are being distributed to ORAG and RC.
(iii)	C	B	Prompt and comprehensive action is taken by many, but not all, managers in response to the audit findings.	*Performance improved*. A multilevel system for following up actions on audit findings has been established. According to the ID, almost all BIs are responding to audit findings.

3.5 Accounting, Recording, and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

(i) Regularity of bank account reconciliations

BoFED and BIs maintain the Z accounts, revenue deposit accounts, MDG Fund account, and DP project accounts. The purpose of these accounts is explained under PI-17.

Z accounts are reviewed every week or every 15 days, depending on how recently the daily statements have been collected from CBE. BoFED records transactions into IBEX based on advices collected from CBE, together with the daily bank statements. Every month, BoFED reconciles the transfer accounts with the respective Z accounts of BIs through exchange of ledgers.

Some of the BIs (BoE, BoH, Amhara Rural Roads Authority [ARRA]) have more than 10 active bank accounts. Generally, BIs reconcile their bank accounts monthly, within 30 days from the end of the month, some earlier than 30 days. BoFED's CTA held in National Bank of Ethiopia is reconciled in less than 15 days from the end of each month.[10] A significant amount of ARNS resources is kept in the CTA. Exceptionally, the bank account used by BoFED for its internal use as its own BI has not been reconciled for more than a year, which does not set a good example to other BIs.

Reconciliation statements show deposits in transit, which are related to transfers and deposits made near to the end of the month and outstanding checks where payees have yet to claim from the bank. There are no significant un-reconciled differences, the reconciliation items mainly consisting of un-presented checks, deposits and transfers made on the closing date, uncleared bank deposits, and late recording by some BIs. Bank reconciliation statements are attached to the monthly financial reports (known as "Treasury Fund Reports") prepared by BIs, including for the MDG Fund.

DP- funded accounts are reconciled monthly, bank reconciliation statements being attached to quarterly Channel 1 reports and often annexed to Channel 2 DP reports (as defined in Chapter 2 and under PI-7).

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

The balance on suspense account 4201 increased from ETB 9.4 million in FY 2010/11 to ETB 19 million in 2012/13. The purpose of the account is to record unknown debits until they are cleared against documents. The reason, according to BoE and BoFED, is the erroneous classification of purchase advances, which should have been recorded under purchase advance (code no. 4211).

Most of the accounts are cleared by the end of the year. Generally, unknown bank entries shown in the statements are cleared in the following month after the reconciliation. Some accounts of BIs visited by the team show that it may take up to six months to clear these entries. The delays are attributed to banks not issuing the debit or credit notes in a timely manner.

As of July 7, 2013 (end of EFY 2005) receivables balances include staff advance of ETB13.9 million, advance of recurrent expenditure from next year's budget of ETB 22 million, purchase advance of ETB 339 million, prepayments to contractors and suppliers of ETB1.98 billion, and other advances ETB 1.06 billion. Advances in connection with long-term construction contracts may be carried forward to the next year. Old reports were not available to determine how soon advances and receivable accounts have been cleared or reconciled. Long outstanding receivables have been a concern in some of the BIs (as noted in ORAG and ID reports).

Suspense payments, which are part of the petty cash system, are reconciled periodically and subject to the scrutiny of monthly internal audits. Suspense accounts not cleared within seven days will be transferred to staff advance and will be deducted from salary.

Table 3.32 PI-22 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-22 (M2)	B+	B		**No change.**
(i)	B	B	Bank reconciliations for all ARG-managed bank accounts take place at least monthly	**No change**. ARG-held bank accounts are reconciled within four weeks from the end of the month. One Z account at BoFED

[10] The March (Megabit) 2014 statement was reconciled six days after the end of the month.

Indicator	Score 2010	Score 2014	Justification	Performance change
			within 4 weeks from the end of the month. .	that has been un-reconciled for more than a year is an isolated case. Otherwise the rating would be A.
(ii)	A	B	Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of the end of period. Some accounts have uncleared balances brought forward. Some advances, which are part of the petty cash float, are cleared within seven days. Some other types of suspense accounts and advances are cleared in less than six months. Others are cleared or reconciled within two months after the end of the fiscal year.	**No change.** The A rating in the 2010 assessment was based on an assurance from BoFED that suspense accounts and advances were cleared regularly, but there was no evidence to back this up. The rating should have been B.

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

***Health sector SDUs*:** Health service delivery takes place at the woreda government level through health centers (covering both inpatients and outpatients) and health posts (smaller client base, outpatients only). Health centers are classified in the budget classification as sub agencies; they have finance offices and bank accounts. Their budgets and the execution thereof are therefore captured in woreda government budget reports and their monthly accounting statements captured in trial balance reports. A sample health center report was provided to the team, the report showing the uses and sources of finance for that health center.

Health posts are not captured individually in the budget estimates; only aggregate amounts are shown. Woreda health offices allocate these amounts to health posts through an internal manual system and keep track of the use of these resources. The resources are likely to be provided in kind to the posts (e.g., drugs) following their purchase by the woreda office through WoFEDs. The offices report weekly to their respective zonal health office and are required to submit a standardized quarterly report form to it. Reports are presented to the Regional Cabinet for its notice and decision making. A GEQIP-type project is not yet in place whereby health posts can have bank accounts and purchase inputs directly in cash rather than receive them in-kind from woreda health offices.

Education sector service delivery units (SDUs): Woreda governments also have the main responsibility for primary education SDUs. Primary schools are not cost centers; they do not have individual budget classification codes assigned to them. Thus budget execution reports cannot explicitly report through IBEX on the financial resources they receive relative to their approved budgets. The woreda education offices (which are cost centers) are responsible for allocating the physical resources purchased under their budgets to the SDUs, although, in practice, the WoFED acts as the financial manager for the education office (single pool system). The education office maintains standardized manual ledgers for each school, and in this way the flow of resources to primary schools can be tracked.

Prior to the advent of the GEQIP) in FY 2009/10, woreda education offices were supposed to prepare activity reports in hard copy ledgers and send them to their respective zonal education offices, which would then compile them into a consolidated report and send this to the regional BoE. In turn, the bureau would prepare a consolidated report covering all primary schools in the region and send this to the Regional Cabinet. The report would show the physical resources received by primary schools relative to what they should be receiving. In practice this was not happening due to capacity and financial constraints.

The situation has since improved, and the Regional Cabinet now receives education sector and health sector SDU reports. The routine generation of the information needed for BoE to prepare the reports is in place. The GEQIP, which is financed by Federal Government, World Bank and UNICEF, has helped in this regard. GEQIP has the following components: curriculum, textbook, and assessment; quality improvement; capacity development; management information system; monitoring and evaluation; and school grants. Use of the school grants is based on the Ministry of Education's "School Grant Guidelines." Parent-teacher associations are involved in the planning for the use of the funds and, in general, play a strong role in the project. Notice boards at the schools show the planned and actual use of the funds.

The funds are channeled through BoFED, at the request of BoE, which then releases the funds to WoFEDs, which, in cooperation with woreda education offices, release the funds directly into the bank accounts of primary schools, the accounts having been established under the project. The bank account mechanism facilitates the tracking of resource use. The schools maintain cash books and send these quarterly to their respective WoFEDs and education offices for review. Funds utilization reports are prepared monthly through the BoE and the Channel 1 Unit in BoFED. Quarterly progress reports are prepared under the project. Zonal education offices play a general monitoring role. A financial review of 10 percent of the schools is conducted annually.

The rollout of IBEX to woredas since the 2010 assessment has contributed to improvement in the reporting on SDU activities. Health and education sector reports are further consolidated into the quarterly IBEX JBAR reports that ARG sends to MoFED.

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),was developed during FY 2007–09 under the Financial Transparency and Accountability Program (FTAP), and the resources are posted on notice boards outside SDUs. The system has been rolled out across the region.

Table 3.33 P-23 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-23 (M1)	B	B	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health centers and posts. The information is compiled into reports at least annually.	**Improvement.** The rollout of IBEX to woredas and programs such as GEQIP and FTAP has played a major role. A GEQIP-type project is not yet in place for health posts**.** The 2010 score should have been C.

Sources: Meetings with BoFED, and Bureaus of Health and Education; GEQIP-related documents; and trial balance sheet for Robit Health Station, June 2014.

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.

Linking all BIs, zones, and woredas through a wider area network and full rollout of IBEX were indicated as an ongoing reform in the FY 2010 PEFA assessment. At the time of the FY 2014 assessment IBEX has been rolled out to almost all BIs, zones, and woredas except seven woredas. The IBEX coverage improves the timeliness of reporting and consolidation at the level of zones and region. Wide area connectivity is not yet in place, but IBEX databases operate on a stand-alone basis at each BI and woreda. Woredas submit the soft copy of the IBEX data to zonal offices every month on a CD or as an email attachment. Zones import the data into their database. On a quarterly basis zones deliver the soft copy and a hard copy of consolidated data to BoFED. Sector bureaus are required to submit a soft copy of their accounts on a monthly basis directly to BoFED. At the time of this assessment, the network installation activity (referred as "woreda net") was being completed for 122 woredas.

(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 and recurrent and capital expenditures for each BI (and subagencies within each body) according to economic classification. The reports show actual expenditures. Each BI prepares and submits these reports to its respective management and BoFED prepares a consolidated report. The reports do not include commitment information, however, as BIs are using different systems, including Excel spreadsheet and manual budget ledgers to control and report on commitments. The budget control modules of IBEX can handle commitment reporting, but the ongoing connectivity problems have been precluding this.

The financial reports for Channels1a and 1b DP-financed projects are produced in separate books of accounts managed by separate accounting software (e.g., Peachtree) or Excel spreadsheets. There is no consolidated report that combines these DP-funded projects. These reports are submitted separately to MoFED through BoFED. BIs submit reports monthly or quarterly to line ministries or to DPs depending on the reporting agreement.

(ii) Timeliness of the issue of reports

BIs prepares monthly reports and submit them to BoFED 10 days from the end of the month. BoFED consolidates the reports into one report and submits it to its management. According to BoFED, 90 percent of the BIs submit their reports within 10 days from the end of each month. The second quarter report for the EFY 2006 (ending January 8, 2014) was submitted on February 6, 2014, which is in less than a month from the end of the quarter. These reports were posted on the BoFED website in previous years, but are not currently being posted due to the nationwide connectivity problems.

(iii) Quality of information

There is no material concern for the accuracy of data on domestically funded expenditures. The quality of monthly and quarterly reports has improved due to IBEX being used by all BIs. Consolidated quarterly reports, which include woreda information, may not be complete, as 7 out of the 167 woredas are still using the manual method of recording, as they are remote and do not have electrical infrastructure. The experience gained from the rollout of IBEX and the improved capacity of the internal audit function, and improved follow-up on audit findings (PI-21, PI-26), have contributed to the improvement. Delays in clearing suspense accounts and advances, and the limited information on Channel 1b DP-funded actual expenditure, affect the quality of reports.

Table 3.34 PI-24 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-24 (M1)	**C+↑**	**C+**		**Performance unchanged overall, but the quality of reports has improved**.
(i)	C↑	C	Classification of data allows direct comparison with the budget, but only at the accrual and payment stages, not at commitment stage.	**No change**. Detailed comparison is possible for revenues and domestically financed expenditure for each BI. Commitments and the operations of DP-funded projects are reported on separately. Connectivity problems beyond the control of ARG have precluded the use of IBEX for commitment reporting.
(ii)	A	A	Reports are prepared quarterly or more frequently and issued within 4 weeks of end-of-period.	**No change,** but timeliness has improved due to greater IBEX coverage at BI (and woreda) level.
(iii)	B↑	B	There are some concerns about data accuracy, but these do not undermine their overall consistency or usefulness.	*Performance unchanged in terms of the rating,* but the quality of reports has improved due to the rollout of IBEX. Delays in clearing advances and suspense accounts (PI-22) affect the quality of reports

Source: BoFED Accounts Department.

PI-25 Quality and timeliness of annual financial statements

Consolidated year-end financial statements are a good expression of the PFM system's transparency. This indicator assesses the quality of annual financial reporting by reference to its comprehensiveness, timeliness, and standards used. The financial statements are prepared for ANRS as a whole and not separately for ARG.

The Financial Administration Proclamation (no. 178/2011) lists the content of the annual financial report, which includes consolidated fund, debt, and contingent liabilities, budget outturn, budget subsidy transfer, special funds, and the opinion of the Auditor General.

(i) Completeness of the financial statements

The annual financial report prepared by BoFED contains information on the initial and supplementary proclaimed budget for the year, budget revenue, and expenditure outturn by zones, sectors, and woreda for the reporting period and for the previous year. The report also contains special purpose expenditures for city administration, budget transfers, MDG budget outturn, trial balances details by accounts, and trends on growth of internal revenue.

The consolidated financial report does not include information on Channel 1b DP-funded project accounts (DPs direct to BoFED, e.g., UNEXCOM agencies). The information is compiled separately by BoFED, through its Aid Coordination Unit, the reports being prepared outside IBEX (except in aggregated terms until FY 2010/11) and thus not included in the annual financial reports. The amounts make up only about 2 percent of expenditures, but they represent omissions from the financial reports.

Annual financial reports on DP-funded projects under Channel 1a are reported separately by project to MoFED, these projects being part of MoFED's budget. Channel 2 DP-funded projects (external assistance channeled through sector ministries and then to sector bureaus, or external assistance channeled straight to sector bureaus) are also outside the scope of this dimension, as they are not included in the ANRS budget in the first place. Channel 2b projects are covered under PI-7.

(ii) Timeliness of financial statements

According to the Financial Administration Proclamation, BoFED is supposed to submit annual financial statements to ORAG for audit within four months from the end of the fiscal year. In practice BoFED has been submitting the reports between seven and nine months from the end of the fiscal year (Table 3.35). The EFY 2005 report was submitted about a month earlier than for the previous two years. 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.

The planned woreda wide area network installation is expected to improve timeliness.

Table 3.35 Timeliness of Financial Statements Submission to ORAG

	EFY2003 (2010/11)	EFY2004 (2011/12)	EFY2005 (2012/13)
Statements received by ORAG	April 20, 2012	April 22, 2013	March 21, 2014
Timeliness of submission (from the end of the EFY)	9 months and 12 days	9 months and 14 days	8 months and 13 days

Source: BoFED.

(iii) Accounting standards used

There is no change in the application of accounting standards since the previous PEFA assessment. The annual financial statements are prepared on a historical cost basis, using a modified cash basis of accounting. Revenue is recognized on receipt, except for aid in kind (which should be valued before being brought to account),[11] employee income tax and fines and interest on salary advances (recognized on processing of payroll), and deduction of withholding tax from payments to suppliers (on payment of invoices). Tax revenues are recognized on receipt. External assistance is also recognized on receipt. The financial administration proclamation requires the recognition of contingent liabilities, although BoFED does not estimate these.

Expenditure, including expenditures on fixed assets and property, is recognized on a cash basis during the year, but capital expenditures are accrued at the end of the year for the annual statements. The accounts are kept open for a grace period of one month after the end of the financial year so that outstanding liabilities are paid and cash payments catch up with recorded expenditure. Salary and pension payments are recognized on processing of the payroll (monthly). Interest on public debt is recognized on payment. Investments in public enterprises are recorded as expenditures (account code 6412 and 6413) in the year of payment and subsequent year commitments for additional investment are not disclosed. Large investments with the objective of creating income-generating activities, but run by public bodies, are recorded as investment (code nos. 4800 to 4819).

Financial statements are not in line with International Public Sector Accounting Standards (IPSAS). Unlike the Federal Government's statements, the financial statements for EFYs 2003, 2004, and 2005 did not contain cash flow statements, statements of financial position and statements of financial performance. Extensive notes and supplementary disclosures were not provided. Analysis of accounts payable and receivable were not also included in the reports.

[11] This does not happen. Aid in kind received by BIs in the form of assets and consultancy services is not recorded.

Most of the reports for Channel 1b funds are simplified reports, such as statements of expenditures designed in accordance with the reporting requirements of the various donors and not standard financial reporting formats.

On-going and planned activities:

- The Federal Parliament very recently approved the adoption of IPSAS. The ARG has just started to implement IPSAS.
- Starting in FY 2013/14, Channel 1b projects are being reported via IBEX using a protocol that converts DP economic classification codes into IBEX economic classification codes.

Table 3.36 PI-25 Results

PI-25	Score 2010	Score 2014	Justification	Performance change
PI-25 (M-1)	**C+**	**C+↑**		**No change.**
(i)	B	B ↑	Annual consolidated financial reports are prepared and include, with few exceptions, full information on expenditures, revenues, assets, and liabilities, and thus are not part of the financial reports.	*No change*. Channel 1b projects are still not being reported in IBEX and therefore are not part of the consolidated reports. Starting in FY 2013/14, a new protocol is enabling conversion of DP codes to IBEX .
(ii)	B	B	The statements for FYs 2010/11, 2011/12, and 20012/13 were submitted to ORAG in about eight, eight, and seven months, respectively, from the end of the financial year.	*Slight improvement.*
(iii)	C	C↑	Financial statements are prepared on a modified cash basis of accounting but financial statements are not fully in line with IPSAS	*No change*. ARG has just started to implement IPSAS.

Source: BoFED.

3.6 External Scrutiny and Audit

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

The use of public funds can be transparent only with a high quality external audit.

ORAG was "re-established" in 2011 (EFY 2003) under Proclamation no. 186/2011, in accordance with sub-article 3/1 and 8 of Article 49 of the Revised Constitution of Amhara Regional State (proclamation no. 59/2001). Key provisions are listed below.

- The Auditor General and Deputy Auditor General shall be appointed by the RC upon nomination by the head of government and will be accountable to the RC. The maximum office term for the Auditor General and for the Deputy Auditor General is two terms, and a single term is 12 years.
- They will carry out the examination of performance and the environmental protection audit, information audit, resources control audit, special audits.

- They will inform audit findings to heads of the pertinent offices or organization and report to the Bureau of Justice and the Secretariat of the head of government when the audit findings reveal the occurrence of grave irregularity and the commission of a crime. If the crime is related to corruption, they will also inform to the Ethics and Anti-corruption Commission of the region.
- They will provide the required training and certificate of competence to internal auditors.
- They will issue, renew, suspend, and cancel certificates of competence, which enable those auditors and accountants.

According to the revised proclamation, public bodies should submit their annual accounts before October 10 (three months from the end of the fiscal year) and BoFED should submit the consolidated account before January 8 (six months from the end of the fiscal year)

ORAG has 124 auditors. According to its structure, the total number of auditors required is 216, including support staff. Eight of the staff have masters' degrees, one auditor has a diploma in accounting, and the remaining technical staff have BA degrees in accounting. In FY 2014, ORAG opened a branch office in one of the regional zonal towns, Dessie. The branch office will have 90 technical staff and at the time of this assessment about 54 auditors have been employed (all are with BA degree in accounting).

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

Extent of the Audit Coverage

ANRS ORAG is responsible for the audit of the accounts of the Regional Government offices and organizations and assistances and donations given to the Regional Government offices and organizations (Article 5 of Proclamation 186/2011). There are 684 audit entities, which include 48 regional BIs, 10 zonal offices, 164 woredas, and a number of colleges, hospitals, and courts. The single pool system, (whereby WoFED and ZoFED manage the finances of the woreda and zonal sector offices respectively) permits aggregation, so that an external audit can cover several public bodies as one aggregate body.

ORAG categorizes BIs as high, medium, and low risk BIs. Audit entities with big budgets are classified under high risk. Woredas are included in this category, not only because of their large budgets, but also because of their low skill levels. Colleges and hospitals are categorized as medium risk. Entities such as courts are categorized as low risk.

ORAG's financial audit includes project accounts managed by BIs. The Office of the Federal Auditor General (OFAG) audits funds controlled by the Channel 1 coordinating unit at MoFED, which come under the Federal Government's budget (indicated in Chapter 2) but are managed by BIs in Regional Governments, including ARG. ORAG has the mandate to audit public enterprises, such as the Housing Development Agency (Performance Audit), Mulualem Cultural Center (special audit), and Amhara Water Works Construction Enterprise (Performance Audit) at different times.

The previous proclamation required ORAG to conduct audits on the accounts of private contractors under contract to ARNS. This article is no longer applicable as per the revised proclamation (186/2011).

The audit coverage in 2012 and 2013 was 54 percent and 54.3 percent, respectively, and is projected to be 60 percent in 2014.[12]

Nature of the Audit

[12] The audit period for reporting is from January 1 to December 31.

ORAG conducts financial audits separately at the level of BIs, and a financial audit based on annual consolidated financial report of the region. ORAG also conducts special audits and Performance Audits. Environmental audits are conducted as part of Performance Audit. No IT audit is conducted so far. ORAG conducts special audits based on the requests from the Anti-corruption Commission, courts, and other government bodies. ORAG conducted 124 completed audits and 66 interim audits in FY 2013 (equivalent to 148 completed audits), including 116 completed financial audits, 8 completed special audits, and 5 performance and environmental audits.[13]

Adherence to Auditing Standards

ORAG follows the audit standards of OFAG, which is a member of the International Organization of Supreme Audit Institutions (INTOSAI). ORAG has separate audit manuals for Regulatory Audit (since FY 2011) and Performance Audit (since 2004) and Environmental Audit. The FY 2012 release of the Regulatory Audit Manual of INTOSAI and the Exposure Draft version of Performance Audit Manual of INTOSAI are used.

Publication of audit reports (INTOSAI Standard): Publication of audit reports is not prohibited by law, but in practice no reports have been published. It was not possible to confirm that this report is ever posted to the website of ORAG. The website of ORAG was not functional at the time of this assessment (and was not functional at the time of the FY 2010 assessment).

Independence of ORAG from the executive (INTOSAI standard): As noted, ORAG is accountable to the RC and thus is independent in principle from ARG. The ORAG budget is submitted separately to the BFC in the RC. According to Article 8/2 of the revised proclamation (no. 186/2011), ORAG is mandated to propose its own salary scale to the RC.

Cooperation 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 10), thus meeting another INTOSAI standard.

ORAG indicated that its annual audit reports and its annual bulletin *(Audit Review)* have been posted on its website (www.anrsoag.gov.et). The *Audit Review* is published annually and distributed to the public. Annual audit reports to the RC are broadcast live via Amhara TV. ORAG used Amhara television to promote its function in four sessions in FY 2013/14.

Audit methodology: The focus is increasingly on audit of internal control systems (as stipulated in paragraph 5, Article 6, in the ORAG law on powers and duties of ORAG), as per INTOSAI/AFROSAI standards rather than of individual transactions. Audits are conducted on a sample basis based on a risk analysis. 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. There is a significant improvement in terms of use of internal audit reports. ORAG uses the biannual consolidated audit reports of the Internal Audit Core Process at MoFED to help guide its risk assessment exercises and audits. The improvement is because of a change in structure of internal audit services and the collaboration of ORAG in the training of internal auditors.

Table 3.37 Scope and Nature of Audits Carried Out for FY 2011/12 (EFY 2004)

[13] Five performance and environmental audit were completed in EFY 2005 (started in 2004), and seven performance and environmental audits in progress in EFY 2005.

Elements covered	% of expenditure audited	Audits carried out	Audit standards applied
Expenditure Assets Liabilities (debt)	54.3%	Financial audits focusing on systemic problems (of systems) disbursement, cash management, property, procurement, recording, reporting, etc.).	INTOSAI
Revenue collection audit	26.0%	Special audits, Performance Audits, and environmental audit Revenue audits (17 revenue offices)	

Source: ANRS ORAG

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

According to the Finance Administration Proclamation (no. 178/2011), BoFED shall submit consolidated accounts for the Regional Government to ORAG. No specific date of submission is indicated. Nonetheless, each public body should close and submit its account to ORAG within three months from the end of the fiscal year (Article 58) according to the proclamation. By law, ORAG should audit the annual consolidated accounts of ANRS (i.e., regional bureaus and woreda governments) within eight months of their submission by the Regional Government, and then submit its opinion to BoFED, which then submits to the RC. According to the Finance Administration Proclamation, the audited public accounts of each fiscal year should be submitted to the Council of ARNS before the end of the next fiscal year (Article 54 of Proclamation no. 178/2011). Leaving eight months for the audit, it is implied that BoFED should submit in four months from the end of the fiscal year in order to submit the audited consolidated report to the ARNS Council.

The annual accounts for FY 20010/11 (EFY 2003) were submitted to ORAG in April 2012 (EFY 2004). ORAG completed the audit report in June 2013 14 months from receipt of the draft report. The annual accounts for FY 2011/12 (EFY 2004) were submitted to ORAG in April, 2013, which completed the audit in April 2014. The annual accounts for 2012/13 were under audit at the time of the assessment and, according to ORAG, 50 percent was completed. According to the proclamation, the audit reports of public bodies should be submitted to the RC between three and eight months following the end of the financial year. (Due to resource constraints, they cannot all be done at once.)

Table 3.38 Timeliness of Financial Audit by ORAG

Financial Statements	FY 2009/10 (EFY 2002)	FY 2010/11 (EFY 2003)	FY 2011/12 (EFY 2004)	FY 2012/13 (EFY 2005)
Received by ORAG		April 20, 2012	April 22, 2013	March 21, 2014
Audits of financial statements completed by ORAG and submitted to the Regional Council Duration of audit		June 26, 2013 14 months and 6 days	April 15, 2014 11 months and 23 days	Not yet

(iii) Evidence of follow-up on audit recommendations

Following the submission of the draft audit report, ORAG conducts an audit conference with the auditee. After the audit conference, auditees are required to submit a management letter indicating the course of action they took or are planning to take, in 15 days (for financial and compliance audit) or in 30 days (for Performance Audit).[14] Audit managers at ORAG are responsible for follow-up of the actions on audit findings and recommendations. According to ORAG, 90 percent of the auditees respond. ORAG reports on those auditees which did not respond during its annual reporting to the RC.

Failure to take timely and satisfactory measures in accordance with recommendations given on audit reports presented, with no adequate reason, is punishable with imprisonment from five to seven years or with a fine of ETB 10,000, or both, as per the new Audit Proclamation (no. 186/2011).

As per the performance report of ORAG for EFY 2005, out of the 124 audited entities, 22 audit entities did not respond.[15] Five of the audit entities for Performance Audit responded, although one of them was late.

In order to strengthen the timeliness and completeness of implementing audit recommendations, the Audit Findings Action Taking Committee was established in September 2012. The committee is composed of different organization representatives including BoFED, head of RC, ORAG auditor, Justice Bureau, Anti-corruption Commission, and the regional administration. The committee holds quarterly meetings, at which ORAG presents its findings for the quarter and reports entities that have not responded. Consecutive years of adverse and disclaimer audit opinion will cause the dismissal of the head of the public body. This is, however, not yet practiced as the memorandum of understanding signed by the above committee members is only two years old.

Table 3.39 PI-26 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-26 (M-1)	C+↑	C+↑		**No overall change, but lower score under (i), improvement under (ii), and strengthening trend under (iii).** The lower score under (i) represents a policy decision to reduce coverage in order to strengthen quality.
(i)	B	C	Regional Government entities representing at least 50% of total expenditure are audited annually.	*Audit coverage has fallen*, to 54% (EFY 2004) from at least 75% in EFY 2000 in order to provide for greater quality.
(ii)	C↑	C	Table 3.38	*Improvement.* The rating should have been D in the FY 2010 assessment.
(iii)	B↑	B↑	.	*No change in score*, but strengthening under way as a result of the newly established (September

[14] Article 21, paragraph 3, (Audit Proclamation 186/2011).

[15] Fourteen of them were financial and compliance audits, and eight of them were special audits.

				2012) multiorganisational Audit Findings and Action Taking Committee.

Source: ORAG and Budget and Finance Committee.

PI-27 Legislative scrutiny of the annual budget law

This indicator is evaluated at ARG level. The BFC Standing Committee of the Amhara Regional Council scrutinizes both the draft budget and the audit reports prepared by ORAG. The committee has five members, including the chairman, the only full-time member; the others attend on an ad-hoc basis. At the time of the 2010 PEFA assessment, a Public Accounts Committee was to be established, the BFC effectively being split into two. This did not happen.

Capabilities have improved since the 2010 assessment as a result of training provided during FY 2010/11–2012/13 (EFY 2003–05) by the Federal Government under the UNDP's Democracy Improvement Program.

(i) Scope of the legislature's scrutiny

The situation is unchanged from the 2010 assessment. The BFC scrutinizes the draft budget proclamation submitted to it by the Regional Government cabinet. The draft proclamation contains revenue and expenditure estimates plus details of budget subsidies to woredas and a summary table of financial resources (subsidies from the Federal Government, domestic revenues, and external assistance) and expenditures (recurrent and capital). The proclamation contains no policy analysis or any explanation of the assumptions underpinning the draft estimates.

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

The committee's procedures (and those for the RC as a whole) are governed by regulations and guidelines (Rules of Procedure and Members' Code of Conduct stipulated under annual regulations) 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 National Regional State. The responsibilities of the BFC are described under section 148 of the regulation. The process of budget approval is described in Chapter 7. The regulations do not provide for specialized review committees and negotiation procedures.

The budget is reviewed through a three-stage process: (1) The draft budget proclamation is submitted to the speaker, who reviews it: (2) the speaker submits the draft proclamation to BFC for review, BoFED and sector bureau managers being invited for discussions; and (3) the BFC presents the draft budget to the Council-at-Large. Council members may raise questions and BoFED is requested to reply. The first stage is usually ignored.

According to the rules of procedure, the draft budget proclamation is supposed to be submitted to the RC 30 days before the end of the financial year (July 7).

The 2010 PEFA assessment rated this dimension as C, as procedures were not always well understood and respected. The BFC chairman at the time was trying to improve awareness and understanding of procedures. The training noted earlier has helped BFC to strengthen understanding of procedures.

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

The BFC reviews the draft budget proclamation for two days after receiving it from the speaker (who may take a day to look at it before handing it to BFC). It then questions BoFED in various areas: for example, underlying assumptions, revenue sources, specific purpose grants, explanation of the methodology for allocating the block grant between woredas (PI-8), and sector performance targets. The BFC then presents a report on its review to the RC, which discusses the draft proclamation for a day. The total amount of time taken to review the budget is about 10 days.

The BFC received the draft proclamation for FY 2013/14 (EFY 2006) on June 22, 2013, much later than the 30 day deadline (i.e., June 7). Still, only 10 days were required, one reason, according to BFC, being the greater degree of public consultation during the budget preparation process.

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

ARG follows the Federal Government system, as first prescribed in the Financial Administration Proclamation 57 (FY 2003, EFY 1996) and since replaced by the Financial Administration Proclamation 648 (FY 2009, EFY 2002), and also included in 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. As noted in PI-16 (iii), reallocations between public bodies during the year are extensive.

Ex-ante approval by the legislature of amendments is required only for supplementary budgets that would result in an overall spending increase, regardless of the source of additional funding. The Budget Proclamation Law for FY 2012/13 (EFY 2005) introduced an exception to this rule, however. Article 6 states that up to 50 percent of excess revenues (relative to the budgeted amounts) collected by sector bureaus and woredas can be retained for spending without requiring a supplementary budget. One supplementary budget at most is presented to the RC each year.

Table 3.40 PI-27 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-27 (M-1)	C+	C+		**No overall change in performance, but improved performance under (ii).**
(i)	C	C	The legislature's review covers details of expenditure (including allocation of subsidies to woredas), but only at a stage where detailed proposals have been finalized.	**No change.**
(ii)	C	B	Simple procedures exist for the legislature's budget review and are respected.	*Performance improved* through greater familiarity with procedures and the enhanced analytical capacity of BFC through training.
(iii)	B	C	In principle, one month is allowed for review.	*Performance fell.* The BFC received the draft budget for 2013/14 on June 22, two weeks later than the deadline. The actual time taken for review was 10 days. The time needed for

PI	Score 2010	Score 2014	Justification	Performance change
				effective review has fallen due to the greater degree of public consultation during the budget preparation process.
(iv)	B	B	Clear rules exist for in-year budget amendments by the executive and are usually respected, but they allow extensive administrative reallocations. The requirement for ex-ante approval by the RC of supplementary budgets is met.	**No change.**

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 by the legislature

The BFC of the RC reviews the audited annual financial statements within 15 days of their receipt (unchanged from the FY 2010 PEFA assessment) and the audit reports on individual BIs within 5 days of receipt. The ORAG also submits six monthly reports that summarize the individual reports.

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

The BFC organizes hearings if ORAG has provided an adverse opinion or disclaimer of opinion in its audit reports. If the issues are not serious, a telephone conversation with the head of the respective BI may suffice. If the issues are serious, a formal hearing is held, which may be attended by staff from the Justice Bureau, the President's Office and the Anti-Corruption Council (i.e., the Audit Findings Action taking Committee, referred to under PI-26).

The number of adverse and disclaimer of opinions is small compared with the total number of opinions, thus enabling BFC to cover all of them. With regard to the FY 2011/12 audit report, the number of adverse opinions was two and the number of disclaimers of opinions was seven, the total number of opinions being 123 (101 qualified and 13 clean).

The Chairman of BFC at the time of the 2010 assessment considered that there was room for a significant improvement in the timeliness and quality of hearings. The number of adverse and disclaimers of opinions was about the same. The quality of the hearings has improved since then, the Chairman of BFC indicating a high level of quality.

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

The hearings conducted under dimension (ii) lead to the preparation of an action plan (e.g., steps to be taken to recover embezzled funds) contained under a memorandum of understanding signed by the officials at the hearing. The 2010 PEFA assessment noted response time in terms of implementing action plans had improved considerably and it appears still to be good, partly because ORAG is checking whether the action plans are being implemented and reporting to the RC accordingly in its quarterly reports.

Table 3.41 PI-28 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-28 (M-1)	B+	A		**Performance improved under (ii).**
(i)	A	A	Scrutiny of audit reports is usually completed by the legislature within three months from receipt of the reports.	*No change.*
(ii)	B	A	In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion.	*Improvement* in terms of quality of the hearings, according to BFC chairman.
(iii)	A	A	The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.	*No change.*

3.7 Donor Practices

D-1 Predictability of direct budget support

ARG does not receive direct budget support from DPs. 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 PBS program.

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

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

The 2010 PEFA assessment included a table prepared by BoFED's Development Co-operation Department showing planned and actual assistance by DP; it is available on BoFED's website. The 2014 PEFA assessment was not able to obtain the same table, partly because of lack of time (the visit was only four days), partly because the information requested was not provided, and partly because BoFED's website is only partly functioning due the ongoing nationwide connectivity problems.

As indicated under PI-7, much of the external assistance provided to ARG is channeled through the Federal Government and is reflected in the budgets of both MoFED and sector ministries. Funding provided directly to BoFED (Channel 1b) is mainly from the UNEXCOM Agencies (mainly UNICEF), World Food Program (WFP), and FINNIDA, associated expenditures being captured in the proclaimed budgets but not using IBEX codes. The amount of such funding is only about 2 percent of ARG expenditure.

At the time of the 2010 assessment, DP funding channeled directly to sector bureaus (Channel 2b) was captured to some extent in the proclaimed budgets of those bureaus. This is no longer the case (as indicated under PI-7).

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

Actual spending under the Channel 1b projects is not captured in the monthly trial balance sheets and budget execution reports prepared by BoFED. The Aid Coordination Unit compiles financial quarterly reports on the projects using an IT-based financial management program called Peachtree, as at the time of the 2010 assessment. The projects and programs follow a program budget-type structure (spending classified according to activity codes), whereas program budgeting is not yet being implemented in Amhara. The codes are therefore different from IBEX economic classification codes.

Starting in FY 2013/14 (EFY 2006) the classification codes of the UN-funded projects and programs are being converted into IBEX economic classification codes using a protocol known as Fund Authenticity and Certification of Expenditure (FACE). Planned and actual expenditures under these projects and programs can, therefore, be captured in the proclaimed budgets of sector bureaus and the budget execution reports that they prepare using IBEX.

Table 3.42 D-2 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
D-2	C	D+		**No change.** The 2010 score should have been D+.
(i)	C	D	Not all major DPs provide budget estimates for disbursement of project aid at least for the government's coming fiscal year	*Decline in performance.* At the time of the 2010 assessment, Channel 2 type funding (DPs direct to sector bureaus) was

Indicator	Score 2010	Score 2014	Justification	Performance change
			and at least three months in advance. Estimates use DP codes that are not consistent with the government's budget classification.	captured in part in the budget proclamations. This is no longer the case. Only Channel 1b type projects and programs are budgeted for, using DP codes, not IBEX codes.
(ii)	C	C	Donors provide quarterly reports within two months of end-of-quarter on all disbursements made for at least 50% of the externally financed projects in the budget. The information does not necessarily provide a breakdown consistent with the government budget classification.	*Change in scope and comparison not possible.* The 2010 rating should have been D as the actual expenditures under the Channel 2b budgeted projects were not reported on and represented more than 50% of all budgeted DP-funded projects. The actual expenditures of budgeted Channel 1b projects are reported on periodically, typically quarterly, but not according to IBEX codes. Actual expenditures are small (about 2% of budgets). The score is not comparable with the 2010 score, as Channel 2b funded projects have not been budgeted for.

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

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

DPs are generally still using their own systems. They are not using IBEX, which precludes them from using ARG's budget execution, accounting and reporting systems.

- BoFED approval is required for PIUs to open bank accounts, but these are not yet part of the TSA/zero balance budget execution system, partly because DP-funded projects and programs do not use IBEX. This creates inefficiencies in liquidity management if surplus cash is sitting in PIU accounts, which cannot be accessed for funding execution of the proclaimed budget.
- Expenditure commitment and payment controls through IBEX do not apply to DP-funded projects and programs.
- Budget execution reports and accounts generated through IBEX do not cover DP-funded projects. Trial balance sheets show zero amounts for actual resources received (and therefore zero expenditures), even though budgeted amounts are shown in the budget proclamations (codes 2000-2999) in the case of Channel 1b-funded projects.

Government procurement systems are coming closer to international best practice standards, but DPs still mainly use their own procurement systems, with the exception of the UN Executing Agencies.

ORAG and internal auditors have the mandate to audit DP-funded projects and program, but DPs tend to recruit their own external auditors, resulting sometimes in multiple auditing of the same project.

Human resource management systems also tend to be different, with staff of PIUs recruited outside the civil service under conditions different from those of civil servants.

In terms of magnitudes, the relevant amounts of aid are those delivered through Channel 1b (DPs direct to BoFED), Channel 2b (aid delivered directly to sector bureaus), and Channel 3 (aid directly to projects, which have a service delivery agreement with sector bureaus). The amount delivered through Channel 1b is very small (about Birr 300 million), and most of this is delivered using DP procedures. The total amount delivered through Channel 2b and Channel 3 is not known. None of it uses country procedures.

About 23 percent of the block grants to BoFED from MoFED consist of the PBS budget support provided by DPs, on the basis of the 23.14 percent of the horizontal allocation of block grants to regions. MoFED indicated that this was a valid way of computing the budget support component of the block grants. The total block grant to BoFED (excluding the MDG grant) was ETB 8,570 million in FY 2012/13, so the DP share of this was ETB 1,983 million. By definition, country PFM systems are used in spending budget support.

The sizeable amount of the DP share indicates that at least 50 percent of DP support is spent using ARG systems, even under very optimistic projections of Channel 2b and Channel 3 aid.

Table 3.43 D-3 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
D-3	D	At least C	At least 50% of aid funds are managed through national procedures, due to the large amount of aid provided through PBS.	**No change.** The rating in 2010 was underscored.

HLG-1 Predictability of transfers from Federal Government

This indicator is assessed mainly in terms of the predictability of the receipt of the block grant, the amount of which is specified in the budget proclamation, and which is unconditional in its use.

The other main transfer from MoFED is the MDG Fund grant, which was established in FY 2011/12. The proposed use of the grant is included in the proclaimed budget on sector bureau basis (for the water, education, health, agriculture, and rural roads bureaus). Payment is on a reimbursement basis, conditional on demonstration that the proposed projects have been, or are, being implemented. Predictability cannot be measured, therefore.

As indicated under PI-13, profits taxes, VATs, and excise duties are shared between the central government and ARG. ERCA directly collects its share of profits taxes through its Regional Government branches. It collects ARG’s share of VAT and excise duties and deposits this into BoFED’s account. Transfers depend on actual collections, which cannot be determined ex-ante.

As indicated under PI-8, ARG receives a special purpose urban development grant from the central government. Disbursement to projects is based on performance, so predictability cannot be measured. It is relatively small, comprising 5 percent of the total transfers from BoFED to woredas.

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

Annual deviation of actual block grant transfers to BoFED from the original total estimated amounts is very small.

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

The MDG grant and urban development grant are earmarked. Grants are disbursed on a performance basis. This dimension is therefore not applicable.

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

Predictability is very good, the amounts disbursed on time in twelve monthly installments for recurrent expenditure, according to a schedule agreed with MoFED. The capital expenditure component is disbursed mainly on an as-required basis, so this dimension does not apply to it.

Table 3.44 HLG-1 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
HLG-1 (M-1)	A	A		**No change.**
(i)	A	A	In no more than one out of the past three years have HLG transfers fallen short of the estimate by more than 5%	*No change.*
(ii)	NA	NA		*NA.*
(iii)	A	A	Actual transfers have been distributed evenly across the year in all of the last three years. In accordance to a schedule agreed at the time of budget approval	*NA.*

Source: Data provided by BoFED.

4 Government Reform Process

4.1 Recent and Ongoing Reforms

All government reforms, at all levels, are planned and managed within the overall national plan, the Growth and Transformation Plan (GTP), prepared by the Federal Government. The GTP (FY 2010/11–2014/15) was issued in November 2010. The GTP's objectives are: to (1) attain high growth within a stable macroeconomic framework; (2) achieve the MDGs in the social sector; and (3) establish a stable democratic and developmental state. Each Regional Government has its own GTP, derived from the Federal Government's. The national GTP took over from the "Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005/06–2009/10." Amhara sector bureaus base their sector development strategies on sector ministry strategies (particularly education, heath, agriculture, water resources and roads), themselves based on the GTP (and previously based on PASDEP).

The Expenditure Management and Control Program (EMCP), coordinated by the EMCP Coordinating Unit in MoFED, remains the main program governing public financial management (PFM) reform, and it is also led by the Federal Government. Implementation started in 2002. The Public Sector Capacity Building Program (PSCAP) also supported PFM reforms. This started in 2005 and ended in 2013.

The Promoting Basic Services Program (PBS) (formerly the Protection of Basic Services Program) is a nationwide program that aims to contribute to expanding access to basic services and improving their quality. The PBS was established in 2006 and is now in its third phase. Much of the PBS is funded in the form of a block grant from MoFED to regional governments. A portion of it is in the form of specific projects, such as the Financial Transparency and Accountability Program (FTAP); this includes, for example, design of service delivery templates for posting outside service delivery units, design of budget performance templates for posting outside WoFEDs, support for local civil society organizations that improve opportunities for citizens to provide feedback on service delivery to local administrators and service providers, and, more recently, as part of the second phase of PBS, in the form of technical assistance and training for PFM strengthening in woredas through PFM support teams provided by BoFEDs.

At the time of the 2010 PEFA assessment, most PFM reforms had already been implemented or were in the process of being implemented. Reforms that have taken place since the 2010 assessment or are still ongoing include the following:

> *Adoption of a revised legal frame work for PFM based on the Federal Government's Financial Administration Proclamation.* The revised legal framework came into force in 2012, along with the issuing of accompanying regulations and 13 directives and manuals (as outlined under PI-20), all with the aim of strengthening PFM. One organizational change was the separation of the public procurement and property administration function from financial management, and the enactment of a separate Public Procurement and Property Administration Proclamation. Institutionally, this meant the public procurement and property administration process was separated from the financial administration and property management process and converted into a separate core process. This is currently located in BoFED, but there are plans to convert it into a separate agency at regional and sub regional levels on the new system.

Revenue administration (PIs 13–15):

- Commencement of biometric finger printing project, the purpose of which is to ensure that all potential taxpayers who do not yet have TINs are registered for obtaining TINs;
- Introduction of the community block management system, as a mechanism to inform taxpayers about their liabilities and obligations and mobilize them so that they pay their obligations on time;
- Introduction of electronic cash register machines so that payments of VAT by customers are automatically paid into BoFED's Central Treasury Account;
- Introduction of the penalty waiver directive, as a way of inducing taxpayers to pay their tax liabilities on time;
- Consolidation of tax audit reforms with greater emphasis on risk assessment, as a method of identifying auditees.

Procurement has strengthened, partly in response to the new financial administration and public procurement proclamations and accompanying manuals and directives. Most procurement is now conducted through open competition, a major change since the time of the 2010 assessment. A Complaints Review Board (CRB) is in place, located in BoFED, although the level of its impartiality is questionable. Most complaints are resolved at the procuring entity level before they reach the CRB.

The internal audit system that was still in its early days at the time of the 2010 assessment has been gradually expanded and strengthened (PI-21). Implementation by BIs of internal audit recommendations has improved.

With support from PBS through the FTAP, PFM reform support teams, mainly from BoFED, were created and are providing technical support to WoFEDs.

4.2 Institutional Factors Supporting Reform Planning and Implementation

Government leadership and ownership of its PFM reforms is high. Most PFM reforms fall under the EMCP, coordinated by the EMCP Coordinating Unit in MoFED. Progress is monitored monthly by the Coordinating Unit. The program is divided into 12 projects, each of which has a designated Project Manager. Performance is monitored against a rolling thee-year action plan. The current action plan lists 56 activities, their implementation being conducted by responsible bodies (MoFED directorates, the Public Procurement Authority, regional and woreda administrations, and so forth). Progress reports are used to revise and update the action plan.

Appendix A List of Document Reviewed/Consulted

1. EFY 2005 Audit report - for the audit of the accounts of the Regional Government for EFY 2004
2. Proclamation for the re-establishment of Regional Auditor General Proclamation no 186/2003
3. Performance Audit report and the 11 months performance report of the regional Auditor General – EFY 2004
4. Audit report of Bureau of Health – EFY 2005
5. Finance Audit Report – Follow-up on audit findings and recommendations – Bureau of Health
6. Financial Reports including trial balances, budget and expenditure reports for the EFY 2003, 2004 and 2005 – from BoFED
7. Internal Audit Report – Annual and Quarterly Consolidated internal audit report prepared by Inspection department at BoFED
8. Growth and Transformation Plan of Amhara Regional State (EFY 2003 – 2007)
9. Amhara Regional State's GDP Estimates EFY 1998- 2003
10. Budget Proclamations for EFY 2003, 2004 and 2005
11. Constitution of the regional state - Proclamation No 59/2001
12. UNDAF Financial reports prepared by Bureau of Education – Amhara
13. Memorandum of Understanding signed by multiple stakeholders on follow-up of audit findings and recommendations
14. PFM Reform Report, Amhara BoFED – EFY 2005
15. Income Tax (2003) and supporting regulations (2004);
16. Turnover Tax (2003);
17. Value-Added Tax (2002)
18. Excise Tax (2002);
19. Rural Land Use Fee and Agricultural Income Tax (2003)
20. Stamp Duty (1999) and the "Khat" Sales Tax (1999)
21. Manual for the Administration of Budget (8/2011)
22. Cash Disbursement Manual
23. Various directives: Vehicle usage, Cash management, goods and services fees, internal control, Budget manual, Complaint management guideline, internal audit guideline, Property and Procurement Service Regulation, Stock management manual, personal guarantee guideline.
24. Procurement Manual – Issued EFY 2005 (November 2012)
25. ANRS Financial Regulation – EFY 2004
26. ANRS Financial Proclamation – No 178/2003

Appendix B Persons Met

SN	NAME	OFFICE	Position
1	Tilahun Eshete	BOFED	Deputy Head
2	Ayenew Belay	BOFED	Bureau Head
3	Teshome Ayehu	BOFED	PBS Accountant
4	Asem Gelaw	BOFED	Finance Officer
5	Worku Gashaw	BOFED	Budget & Planning Officer
6	Yedemie Yeshalem	Regional Revenue Authority (RRA)	Deputy Director General
7	Getachew Mesfin	RRA	Tax Collection & Monitoring Senior expert
8	Engdawork Gezahegn	RRA	Tax Audit & Investigation expert
9	Agmas Chanie	RRA	Plan & Research Process owner
10	Abebe Shimekaw	RRA	Tax Collection & Accounting expert
11	Mulu Tebabal	BOFED	Internal Audit Process owner
12	Wasyihun Gelaw	BOE	Internal audit process owner
13	Esmelealem Mihretu	BOE	HRM process owner
14	Bizuayehu Melaku	BOE	Accounts process owner
15	Habtamu Bizuneh	BOE	Plan & Budget Process owner
16	Seium Zewede	BOE	Budget expert
17	Sewareg Alamir	BOH	Procurement, Finance & Property head
18	Mengesha Mesele	BOH	PFM expert
19	Getachew Wurgessa	Road Authority	Finance head
20	Tigist Mengistu	Road Authority	Internal Auditor head
21	Moges Asfaw	Road Authority	Logistic head

Appendix D PI-1 and PI-2 Calculations

FY 2010/11 ETB, millions						
Budget institution	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	%
1. Water Resource Development Bureau	377	300	341	-40	40	10.7
2. Health Bureau	241	53	217	-165	165	68.5
3. Rural Roads Authority	227	238	205	33	33	14.4
4. TVET Training Commission	162	13	147	-134	134	82.2
5. Bureau of Education	136	70	123	-53	53	38.7
6. Office of Regional Council	107	73	97	-24	24	22.1
7. Mass-Media Enterprise	71	36	64	-28	28	39.0
8. Youth and Sport Bureau	54	92	49	43	43	79.7
9. Work and Urban Development Bureau	32	23	29	-6	6	19.2
10. Micro and Small Enterprises Development Agency	26	12	23	-11	11	44.1
11. Bureau of Agriculture and Rural Development	23	61	20	40	40	179.4
12. Police Commission	22	24	19	5	5	22.9
13. Prisons Administration	19	18	17	0	0	0.6
14. Environmental Protection, Land-Use, and Management. Authority	20	30	18	12	12	61.7
15. Bureau of Justice	18	17	17	0	0	0.6
16. Information and Communication Technology Development Agency	16	7	15	-8	8	49.2
17. Management Institute	13	47	12	35	35	269.3
18. Ethical and Anti-corruption Commission	12	14	11	3	3	27.0
19. Head Of State Administration	11	11	10	1	1	12.8
20. Amhara Regional People Martyrs Memorial	11	14	10	4	4	37.8
21. All Other Votes (Residual)	108	388	98	290	290	267.9
Total expenditure, excluding reserve/contingency	1705	1541	1541	0	936	
Reserve/contingency	0	0				
Total expenditure, including reserve/contingency	1705	1541				
Total expenditure deviation (PI-1)						9.6
Composition (PI-2) variance						60.7
Reserve/contingency share of budget						0.0

FY 2011/12						
Budget institutions	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	%
1. Water Resource Development Bureau	934	1012	875	137	137	15.7
2. Health Bureau	485	388	454	-66	66	14.5
3. Rural Roads Authority	1946	1983	1823	159	159	8.7
4. TVET Training Commission	400	341	375	-34	34	9.1
5. Bureau of Education	554	523	518	4	4	0.8
6. Office of Regional Council	212	148	199	-51	51	25.4
7. Mass-Media Enterprise	131	95	123	-27	27	22.2
8. Sports Commission	43	113	40	73	73	183.6
9. Work and Urban Development Bureau	96	39	90	-51	51	56.7
10. Micro and Small Enterprises Develop. Agency	214	11	201	-190	190	94.6
11. Bureau of Agriculture and Rural Development	240	202	225	-23	23	10.2
12. Police Commission	34	104	32	72	72	221.8
13. Prisons Administration	33	15	31	-16	16	52.3
14. Environmental Protection, Land-Use, and Management Authority	25.9	9.3	24	-15	15	61.7
15. Justice Training Center	20	13	19	-6	6	31.1
16. Amhara Revenue Authority	21	24	20	4	4	18.8
17. Women's and Children's Affairs Bureau	18.7	42.1	18	25	25	139.8
18. Management Institute	17	24	16	9	9	55.3
19. Head of State Administration	41	20	39	-19	19	49.3
20. Bureau of Trade and Industry	25	37	23	14	14	59.3
21. All Other Votes (Residual)	178	168	167	1	1	0.7
Total expenditure, excluding reserve/contingency	5668	5310	5310	0	995	
Reserve/contingency	0					
Total expenditure, including reserve/contingency	5668	5310				
Total expenditure deviation (PI-1)						6.3
Composition (PI-2) variance						18.7
Reserve/contingency share of budget						0.0

FY 2012/13						
Budget institutions	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	%
1. Water Resource Development Bureau	1342	965	1199	-234	234	19.5
2. Health Bureau	1093	784	977	-193	193	19.7
3. Rural Roads Authority	1879	2209	1679	530	530	31.6
4. TVET Training Commission	184	173	164	9	9	5.5
5. Bureau of Education	1097	824	981	-156	156	16.0
6. Office of Regional Council	260	118	232	-115	115	49.3
7. Mass-Media Enterprise	63	71	56	15	15	26.9
8. Sports Commission	56	61	50	11	11	22.1
9. Work and Urban Development Bureau	82	45	73	-28	28	38.7
10. Micro and Small Enterprises Development Agency	166	240	149	91	91	61.1
11. Bureau of Agriculture and Rural Development	325	330	290	39	39	13.4
12. Police Commission	37	52	33	19	19	57.7
13. Prisons Administration	62	46	55	-10	10	17.4
14. Environmental Protection, Land-Use, and Management Authority	32	30	29	1	1	4.9
15. Justice Training Center	20	15	18	-2	2	13.1
16. Amhara Revenue Authority	21	28	19	9	9	47.9
17. Women's and Children's Affairs Bureau	33	37	29	7	7	25.2
18. Management Institute	27	18	24	-6	6	26.7
19. Head Of State Administration	65	25	58	-33	33	56.1
20. Bureau of Trade and Industry	74	112	66	46	46	69.5
21. All Other Votes (Residual)	194	172	173	-1	1	0.5
Total expenditure, excluding reserve/contingency	7110	6354	6354	0	1555	
Reserve/contingency	0					
Total expenditure, including reserve/contingency	7110	6354				
Total expenditure deviation (P-1)						10.6
Composition (PI-2) variance						24.5
Reserve/contingency share of budget						0.0